

City of Gloucester

City Council

CITY HALL • GLOUCESTER • MASSACHUSETTS • 01930
Telephone 978-281-9722 Fax 978- 282-3051

CITY COUNCIL
AND
CITY COUNCIL STANDING COMMITTEE
Budget and Finance
Thursday, February 5, 2009 – 7:00 p.m.
Council Conference Room – City Hall

1. Request of City Auditor to accept the provisions of Ch. 44, Sec. 31D.
2. Special budgetary transfers from Registrar's Office.
3. Memo from Police Chief re: Shannon Grant Award for \$10,682.69.
4. Memo from Health Director re: Grant Application.
5. Memo from Health Director re: \$5,000 grant for Medical Reserve Corps Capacity Building.
6. Memo from Health Director re: Drug Free Communities Support Program Grant Renewal Process.
7. Order CC2008-048 re: the issuance of monthly water and sewer bills. (*cont from 1/22/09*)
8. Report from City Auditor re: accounts with expenditures exceeding their appropriations.
9. Audited Financial Statements for FY08.

COMMITTEE
Councilor Jason Grow, Chair
Councilor Joe Ciolino, Vice Chair
Councilor Steve Curcuru

Committee members – Please bring relevant documentation

CC: Mayor
Jim Duggan
Marcia McInnis
Jeffrey Towne
Jack Vondras
John Beaudette
Bob Whynott

To accept the provisions of Chapter 44, section 31D snow and ice removal, emergency expenditures, not to exceed an additional \$480,000.

City of Gloucester
RECEIVED Special Budgetary Transfer Request
Fiscal Year 2009

JAN 15 2009

*****INTER-DEPARTMENTAL REQUIRING CITY COUNCIL APPROVAL*****Requires 6 Votes
Mayor's Office

DEPARTMENT REQUESTING TRANSFER: REGISTRAR
TRANSFER # 09
- 13 DATE: 1/15/2009 BALANCE IN ACCOUNT \$504.43

(FROM) PERSONAL SERVICES ACCOUNT#: Unifund Acct #
101000.10.163.51200.0000.00.000.00.051

(FROM) ORDINARY EXPENSE ACCOUNT#: Unifund Acct #
Registrar, Sal/Wage-Temp. Pos.
Account Description

EXPLANATION OF SURPLUS: Scheduled elections are done

(TO) PERSONAL SERVICES ACCOUNT#: Unifund Acct #

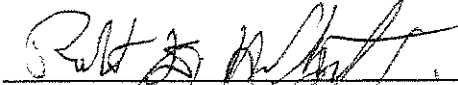
(TO) ORDINARY EXPENSE ACCOUNT#: Unifund Acct #
101000.10.163.52000.0000.00.000.00.052
Registration, Contractual Services
Account Description


ANALYSIS OF NEED(S): Payment of invoices due to election(s); increase not foreseen

TOTAL TRANSFER AMOUNT \$504.43 NEW BALANCE IN ACCOUNTS AFTER TRANSFER

FROM ACCOUNT: \$0.00

TO ACCOUNT: \$1,577.18

APPROVALS: 
DEPT. HEAD: _____

ADMINISTRATION: 

BUDGET & FINANCE: _____

CITY COUNCIL: _____

DATE: 1/15/09

DATE: 1/15/09

DATE: _____

DATE: _____

RECEIVED

JAN 15 2009

City of Gloucester
Special Budgetary Transfer Request
Fiscal Year 2009

Mayor's Office

INTERDEPARTMENTAL REQUIRING CITY COUNCIL APPROVAL *****Requires 6 Votes

DEPARTMENT REQUESTING TRANSFER: _____ REGISTRAR _____
TRANSFER # 09 _____
14 DATE: 1/15/2009 BALANCE IN ACCOUNT \$1,690.70

(FROM) PERSONAL SERVICES ACCOUNT#: _____
Unifund Acct # 101000.10.163.51300.0000.00.000.00.051

(FROM) ORDINARY EXPENSE ACCOUNT#: _____
Unifund Acct # _____
Registrar, Sal/Wage-Overtime
Account Description

EXPLANATION OF SURPLUS: Scheduled elections are done

(TO) PERSONAL SERVICES ACCOUNT#: _____
Unifund Acct # _____

(TO) ORDINARY EXPENSE ACCOUNT#: _____
Unifund Acct # 101000.10.163.52000.0000.00.000.00.052
Registration, Contractual Services
Account Description

ANALYSIS OF NEED(S): Payment of invoices due to election(s); increase not foreseen

TOTAL TRANSFER AMOUNT \$1,490.70 NEW BALANCE IN ACCOUNTS AFTER TRANSFER

FROM ACCOUNT: \$200.00

TO ACCOUNT: \$3,067.88

APPROVALS: _____
DEPT. HEAD: _____

ADMINISTRATION: _____

BUDGET & FINANCE: _____

CITY COUNCIL: _____

DATE: 1/15/09

DATE: 1/15/09

DATE: _____

DATE: _____

City of Gloucester
Special Budgetary Transfer Request
Fiscal Year 2009

RECEIVED

JAN 15 2009

****INTER-DEPARTMENTAL REQUIRING CITY COUNCIL APPROVAL****Requires 6 Votes

Mayor's Office

DEPARTMENT REQUESTING TRANSFER:

REGISTRAR

TRANSFER # 09

15

DATE: 1/15/2009

BALANCE IN ACCOUNT

\$12,765.40

(FROM) PERSONAL SERVICES ACCOUNT#:

Unifund Acct #

101000.10.161.51100.0000.00.000.00.051

(FROM) ORDINARY EXPENSE ACCOUNT#:

Unifund Acct #

City Clerk, Sal/Wage-Perm. Pos.

Account Description

EXPLANATION OF SURPLUS:

J. Gillis stipend/difference in salary for Principal Clerk and
Asst. City Clerk

(TO) PERSONAL SERVICES ACCOUNT#:

Unifund Acct #

(TO) ORDINARY EXPENSE ACCOUNT#:

Unifund Acct #

101000.10.163.52000.0000.00.000.00.052

Registration, Contractual Services

Account Description

ANALYSIS OF NEED(S):

Payment of invoices due to election(s); increase not foreseen

TOTAL TRANSFER AMOUNT \$2,352.46

NEW BALANCE IN ACCOUNTS AFTER TRANSFER

FROM ACCOUNT:

\$10,412.94

TO ACCOUNT:

\$5,420.34

APPROVALS:

DEPT. HEAD:

ADMINISTRATION:

BUDGET & FINANCE:

CITY COUNCIL:

DATE:

DATE:

DATE:

DATE:

**Gloucester Police
Department**

Memo

To: Mr. James Duggan
From: Chief John Beaudette
CC:
Date: 1/12/2009
Re: 2009 Shannon Grant

The Gloucester Police Department has been awarded a Southern Essex County Shannon Grant from the Commonwealth of Massachusetts in the amount of \$10,682.69 with a required match of \$2,670.67. The funds are to be used to supplement the Gloucester Police Department's current youth violence prevention and anti-gang efforts, coordinated with nine neighboring police departments in Essex County.

The 2009 Shannon Award is exactly the same as 2008. Please ask the City Council for permission to apply for these funds. Let me know if you have any questions or comments.

City of Gloucester
Grant Application and Check List

Granting Authority: State ☒ Federal ☐ Other ☐

Name of Grant Shannon Grant

Department Applying for Grant: Police

Agency- Federal or State application is requested from: EX OFFICE OF Public Safety

Object of the application: Youth Violence Prevention - Essex County

Any match requirements: In Kind

Mayor's approval to proceed: _____

Signature

Date

City Council's referral to Budget & Finance Standing Committee: _____

Vote

Date

Budget & Finance Standing Committee: _____

Positive or Negative Recommendation

Date

City Council's Approval or Rejection: _____

Vote

Date

City Clerk's Certification of Vote to City Auditor: _____

Certification

Date

City Auditor:

Assignment of account title and value of grant _____

Title

Amount

Grant Budget by line item account:

Auditor's distribution to managing department: _____

Department

Date sent

Note: A copy of all grant paperwork must be submitted to the Auditor's Office



Metropolitan Area Planning Council

60 Temple Place, Boston, Massachusetts 02111 617-451-2770 fax 617-482-7185 www.mapc.org

Serving 101 cities and towns in metropolitan Boston

January 5, 2009

Chief John Beaudette
Gloucester Police Department
197 Main Street
Gloucester, MA 01930

RE: Southern Essex Coalition Shannon Grant Guidelines

Dear Chief Beaudette:

Congratulations on the Southern Essex Coalition Shannon Grant award that your department has received. Due to our Coalition's collaborative approach and your hard work, your department will receive a total of \$10,282.69 to be expended on overtime costs associated with anti-gang and youth violence prevention activities. In addition, part of the funding can be used on a School Resource Officer or activities to be held in conjunction with local schools. Your department is required to provide a 25% match of \$2,570.67. You may begin expending funds pursuant to this grant immediately. All funds must be expended by November 30, 2009.

Shannon Grant funds must be used in a manner consistent with the Southern Essex Shannon Grant Application (attached). The Executive Office of Public Safety has also included "Additional Terms and Conditions" to grant awards that must be complied with (Commonwealth Standard Contract Form attached). **PLEASE pay careful attention to the reporting of gang data that all police departments are required to participate in.** These funds can be used to supplement but not supplant any current youth violence prevention and anti-gang efforts. In addition, food is not a permissible expenditure of grant funds. The City of Salem reserves the right to reject any reimbursement request that does not comply with the grant requirements listed or referenced herein.


The first mandatory collaboration meeting will occur on January 29, 2009 at 1:00 pm at the Salem Police Department. All future collaboration meetings will take place on the fourth Thursday of every month. In addition, I will be contacting each department/agency about participation in the Steering Committee, as required by EOPSS.

Enclosed please find the "Acknowledgement of Receipt of Grant Conditions" and "Additional Terms and Conditions" for your signature, please sign and return to me in the self-addressed envelope as soon as possible.

We look forward to a successful collaboration. If you should have any questions, please do not hesitate to contact me at severett@mapc.org or 617-451-2770 x 2044 with any questions or concerns.

Thank you for taking part in this important initiative.

Sincerely,


Stephanie L. Everett, Esq.
Manager, Public Safety

Cc: Mayor Carolyn Kirk; Lt. Mary Butler
Attachments

Jay Ash, *President*

Michelle Ciccolo, *Vice President*

Grace S. Shepard, *Treasurer*

Marilyn Contreas, *Secretary*

Marc D. Draisen, *Executive Director*



The Commonwealth of Massachusetts Executive Office of Public Safety and Security

Office of Grants & Research
Ten Park Plaza, Suite 3720
Boston, Massachusetts 02116

Tel: 617-725-3301
Fax: 617-725-0260
617-725-0267

www.mass.gov/eops

Deval L. Patrick
Governor

Timothy P. Murray
Lieutenant Governor

Kevin M. Burke
Secretary

Sandra McCroom
Executive Director

FY09 Charles E. Shannon, Jr., Community Safety Initiative (CSI) Additional Terms and Conditions

All grantees agree, by accepting Shannon CSI grants funds, to the following additional terms, conditions and definitions listed below. Grantees recognize that the failure to comply with these additional conditions will result in the suspension, or termination of funding.

STEERING COMMITTEE

Each site funded under the Shannon CSI shall maintain a Steering Committee to ensure community collaboration, consistent information sharing, oversight, and direction for the Shannon Grant award. The Steering Committee should represent the spectrum of organizations involved and the diversity of your Shannon collaborative and should meet at least monthly. The Steering Committee, upon formation, shall choose a chair and develop standard operating procedures which must be approved by the Executive Office of Public Safety and Security (EOPSS) no later than 3 months after the commencement of the grant.

PROGRAM DIRECTOR

A Program Director shall be appointed/hired to oversee the project at each site and serve as the point of contact for the program partners and the EOPSS. The Program Director's role and responsibilities must be approved by the site's Steering Committee and EOPSS no later than 3 months after the commencement of the grant. The Program Director is required to attend EOPSS sponsored quarterly information-sharing meetings with other Shannon CSI grant recipients, and must submit quarterly progress and fiscal reports to the EOPSS' Office of Grants & Research.

REQUIRED REPORTING

The Shannon CSI is a significant investment made by the Commonwealth to communities throughout Massachusetts with a demonstrated gang/youth violence problem. To measure the impact of program activities, the EOPSS requires quarterly fiscal and programmatic progress reports from each Shannon CSI site. These reports shall provide a detailed description of activities undertaken by each of the organizations receiving funding under this grant award.

In addition, the EOPSS and the Statewide Youth Violence Research Partner (SYVRP) will develop research tools to further assist the EOPSS measure the impacts of programmatic activity within each Shannon CSI site. These tools may include surveys, interviews, focus groups, and data collection measures related to specific five strategies of the Office of Juvenile Justice and Delinquency Prevention. Shannon CSI sites are required to fully participate and complete information requests submitted by the EOPSS and the SYVRP in a timely matter.

BUDGET REVISIONS

Shannon CSI grantees may make budget revision requests during their grant period. Budget revision requests must be submitted to the EOPSS by the Shannon CSI Program Director and include a description of any proposed changes to the final approved budget or scope of services. EOPSS will respond to budget revision requests as promptly as possible.

TRAVEL

Shannon CSI grant funds may not be used for travel outside the Commonwealth of Massachusetts.

CONTRIBUTION OF GANG DATA TO MASSGANGS

All law enforcement agencies receiving funding under this initiative agree to contribute gang-related data to MassGangs. MassGangs is the Commonwealth of Massachusetts unified intelligence system for authorized users to manage and track gangs and gang subjects operating in the Commonwealth.

Law enforcement agencies may continue to use existing databases or other methods of record-keeping for their own internal use if they so choose. In accordance with 28 Code of Federal Regulations (CFR) 23.20 (c), information may not be entered into MassGangs unless a reasonable suspicion standard has been met. This standard is met either by a participating agency having a reasonable basis to believe that there is the possibility that an individual or entity is involved in a specific criminal activity or enterprise; or the presumption of reasonable suspicion arises from the accrual of ten (10) points using the gang member selection criteria developed by the Statewide Gang Database Working Group. The Statewide Gang Database Working Group was comprised of representatives from agencies including, but not limited to, Boston Police Department, Essex County District Attorney's Office, Executive Office of Public Safety and Security, Department of Correction, Hampden County Sheriff's Office, and the United States Attorney's Office.

Information on MassGangs and the Gang Member Identification Worksheet will be forthcoming for grant recipients.

REPORTING CRIME DATA

All law enforcement organizations receiving funding under this initiative must agree to submit timely and satisfactory monthly uniform crime reporting (UCR) or National Incident Based Reporting System (NIBRS) reports to the Commonwealth's Crime Reporting Unit at Massachusetts State Police Headquarters, 470 Worcester Road, Framingham, Massachusetts, 01702.

Authorizing Official (print/sign)

Date: _____

Title: _____



The Commonwealth of Massachusetts
Executive Office of Public Safety and Security

Office of Grants & Research
Ten Park Plaza, Suite 3720
Boston, Massachusetts 02116

Tel: 617-725-3301

Fax: 617-725-0260

617-725-0267

www.mass.gov/eops

Deval L. Patrick
Governor

Timothy P. Murray
Lieutenant Governor

Kevin M. Burke
Secretary

Sandra M. McCroom
Executive Director

Lt. Mary Butler
Salem Police Department
95 Margin Street
Salem, MA 01970

December 17, 2008

RE: 2009 Shannon Community Safety Initiative

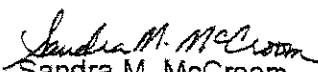
Dear Lt. Butler:

I am pleased to inform you that the contract for the Southern Essex Coalition has been signed by our office. A copy of the executed contract is attached for your records. Please note that we are initially transferring 50% of the total award amount at this time. To be eligible to receive the other 50%, you must comply with the provisions below.

1. The 2009 Shannon CSI Additional Terms and Conditions require that each Shannon CSI site must maintain a Steering Committee, and within three months of the inception of the Shannon CSI contract, provide EOPSS with the standard operating procedures for the Steering Committee and the name of the Steering Committee's chairperson.
2. The 2009 Shannon CSI Additional Terms and Conditions require that each Shannon CSI site must appoint/hire a Program Director to oversee the project. The steering committee must approve and provide EOPSS with the Project Director's roles and responsibilities no later than three months after the commencement of the grant.

After EOPSS receives the above items, and approves each, EOPSS will transfer the second installment of 50%. If you have any questions, please contact James Stark at 617.725.3354 or via email at James.Stark@state.ma.us.

Sincerely,


Sandra M. McCroom
Executive Director

cc: Stephanie Everett

COMMONWEALTH OF MASSACHUSETTS – STANDARD CONTRACT FORM



This form, to be used for New Contracts and Contract Amendments/Renewals, is jointly issued and published by the Executive Office for Administration and Finance (AEF), the Office of the Comptroller (CTR) and the Operational Services Division (OSD) for use by all Commonwealth Departments. Any changes to the official printed language of this form shall be void. Additional non-conflicting terms may be added by Attachment. Contractors should only complete sections marked with a "→". For instructions and hyperlinks (italics), please view this form at: www.mass.gov/osc under Guidance For Vendors - Forms or at www.mass.gov/osd under OSD Forms.

→ <u>Contractor Legal Name</u> (and d/b/a): City of Salem		<u>Department MMARS Alpha Code and Name</u> : EPS Executive Office Of Public Safety	
→ <u>Legal Address</u> (from W-9): 95 Margin Street, Salem, MA 01970		<u>Business Mailing Address</u> : 10 Park Plaza – Suite 3720, Boston, MA 02116	
→ <u>Payment Remittance Address</u> (from W-9): Same		<u>Billing Address</u> (if different):	
→ <u>Contract Manager</u> : Lieutenant Mary Butler		<u>Contract Manager</u> : Sandra McCroom	
→ <u>E-Mail Address</u> : mebutler@spd@comcast.net	→ <u>Phone</u> : (978)-744-0171 x140	<u>E-Mail Address</u> : Sandra.McCroom@state.ma.us	<u>Phone</u> : (617)-725-3301
→ <u>Fax</u> : (978)-744-7825	→ <u>TTY</u> :	<u>Fax</u> : (617)-725-0260	<u>TTY</u> :
→ <u>State of Incorporation</u> (if a corporation) or "N/A": N/A		<u>MMARS Doc ID(s)</u> : SCEPSFYD9SHANSALEM00	
→ <u>Vendor Code</u> : VC000192137		<u>RFR/Procurement or Other ID Number</u> (if applicable):	
<u>MMARS Object Code</u> : P01		<u>Account(s) Funding Contract</u> : 81000111	

X NEW CONTRACT

COMPENSATION (Check only one):

- X Total Maximum Obligation of this Contract \$ 200,000.00
Rate Contract (Attach details of rate(s) units and any calculations):

The following COMMONWEALTH TERMS AND CONDITIONS for this Contract has been executed and filed with CTR (Check only one):

- X Commonwealth Terms And Conditions
Commonwealth Terms And Conditions For Human And Social Services

PROCUREMENT OR EXCEPTION TYPE (Check one option only):

- Single Department Procurement/Single Department User Contract
Single Department Procurement/Multiple Department User Contract
Multiple Department Procurement/Limited Department User Contract
Statewide Contract (OSD or an OSD-designated Department)
X Grant (as defined by 815 CMR 2.00)
Emergency Contract (attach justification)
Contract Employee (Complete Employment Status Form)
Collective Purchase (attach OSD approval)
Legislative/Legal Exemption (attach authorizing language)
Other (Specify and attach documentation):

ANTICIPATED START DATE: November 1, 2008 (Enter the Date Contract Obligations may begin. Review Certification for Effective Date Below prior to entry.)

CONTRACT END DATE: November 30, 2009

- PROMPT PAYMENT DISCOUNTS. Contractor has agreed to the following Prompt Pay Discounts for the listed Payment Issue Dates. See Prompt Payment Discount Policy:
 % Within 10 Days % Within 15 Days % Within 20 Days % Within 30 Days OR, Check off the following if:
X Contractor either claims hardship, or chooses not to provide PPD, or compensation is not subject to prompt pay discounts (grants, non-commodity or non-service compensation)

BRIEF DESCRIPTION OF CONTRACT PERFORMANCE OR REASON FOR AMENDMENT (Reference to attachments is insufficient):
2009 Shannon Anti-Gang Grant

CERTIFICATIONS: Notwithstanding verbal or other representations by the parties, or an earlier Start date listed above, the "Effective Date" of this Contract or Amendment shall be the latest date this Contract or Amendment has been executed by an authorized signatory of the Contractor, the Department, a later Contract or Amendment Start Date specified above, or the date of any required approvals. By executing this Contract/Amendment, the Contractor makes, under the pains and penalties of perjury, all certifications required under the attached Contractor Certifications, and has provided all required documentation noted with a "→", or shall provide any required documentation upon request, and the Contractor agrees that all terms governing performance of this Contract and doing business in Massachusetts are attached or incorporated by reference herein, including the terms of the applicable Commonwealth Terms and Conditions available at www.mass.gov/osc under Guidance For Vendors - Forms or at www.mass.gov/osd under OSD Forms, the terms of the attached Instructions, the Request for Response (RFR), solicitation (if applicable) or other authorization, the Contractor's response to the RFR or solicitation (if applicable), and any additional negotiated performance or budget provisions. The terms of this Contract shall survive its termination for the purpose of resolving any claim, dispute or other Contract action, or for effectuating any negotiated representations and warranties. THE PARTIES HEREBY ALSO CERTIFY THAT (Check one option only):

- X the Contractor has NOT incurred any obligations triggering a payment obligation for dates prior to the Effective Date of this Contract or Amendment; OR
- any obligations incurred by the Contractor prior to the Effective Date of this Contract or Amendment (for which a payment obligation has been triggered) are intended to be part of this Contract/Amendment and shall be considered a final Settlement and Release of these obligations which are incorporated herein, and upon payment of these obligations, the Contractor forever releases the Commonwealth from any further claims related to these obligations.

AUTHORIZING SIGNATURE FOR THE CONTRACTOR:

→ X Robert M. St. Pierre, Date: 12/12/08
 (Signature and Date Must Be Handwritten At Time of Signature)
 → Print Name: Robert M. St. Pierre
 → Print Title: Chief of Police

AUTHORIZING SIGNATURE FOR THE DEPARTMENT:

X Sandra M. McCroom, Date: 12/23/08
 (Signature and Date Must Be Handwritten At Time of Signature)
Print Name: Sandra McCroom
Print Title: Executive Director

COMMONWEALTH OF MASSACHUSETTS - STANDARD CONTRACT FORM



termination date of that contract. Any oral or written representations, commitments, or assurances made by the Department or any other Commonwealth representative are not binding and a Department may not back-date a contract or amendment in order to cover the delivery of performance prior to the Contract effective date. The Commonwealth has no legal obligation to compensate a Contractor for performance that is not requested and is intentionally delivered by the Contractor outside the scope of a Contract. In the event obligations have been incurred by the Contractor that were intended to be included as part of the Contract/Amendment prior to the Effective Date, the parties have two options to resolve the settlement of these obligations:

1. Execute a separate Settlement and Release document for the performance and attach to the original contract; OR
2. Include the performance as part of the Contract/Amendment, as follows: The Department would enter the actual date the performance obligations began under "Anticipated Start Date" for either the new Contract or Contract Amendment on the Standard Contract Form and check off box "2," indicating that the performance prior to the Effective Date is included under a Settlement. By completing the Contract/Amendment to include the performance prior to the Effective Date, the Department is able to enter the MMARS encumbrance to include the performance under the properly executed Contract/Amendment.

Please note that if no performance occurred or was anticipated to occur until on or after the Effective Date of the Contract/Amendment, the parties would check off box "1", thereby indicating that no obligations were incurred prior to the Effective Date.

Authorizing Signature for Contractor/Date: The Authorized Contractor Signatory must, in their own handwriting and in ink, sign AND enter the date the Contract is signed. See section above under "Anticipated Contract Start Date". Acceptance of payment by the Contractor shall waive any right of the Contractor to claim the Contract/Amendment is not valid and the Contractor may not void the Contract. Rubber stamps, typed or other images are not acceptable. Proof of Contractor signature authorization may be required by the Department if not already on file. See "Required Standard Contract Form Contents" section below. See also CTR Department Head Signature Authorization Policy for the policy requiring live signatures and signature dates and Contractor signature authorization verification. See Contractor Authorized Signatory Listing.

Contractor Name /Title: The Contractor Authorized Signatory's name and title must appear legibly.

Authorizing Signature For Department/Date: The Authorized Department Signatory must, in their own handwriting and in ink, sign AND enter the date the Contract is signed. See section above under "Anticipated Contract Effective Start Date". Rubber stamps, typed or other images are not accepted. See also CTR Department Head Signature Authorization Policy.

Department Name /Title: The Department Authorized Signatory's name and title must appear legibly. For Contracts requiring secretariat signoff, if the Department Signatory is not an authorized signatory of the Secretary, evidence of Secretariat signoff must be included in the Contract file.

EXPEDITED EXECUTION. The Contract/Amendment may be sent electronically to the Contractor, completed, executed by the Contractor and faxed back to the Department for start date purposes. The Department does not have to wait to receive a hard copy of the executed Contract/Amendment and may sign the fax copy for start date purposes. When the hardcopy of the Contractor's executed Contract/Amendment is submitted, the Department has the option of re-signing the hardcopy with the date from the earlier signed fax or may just attach the fax copy to the hardcopy of the Contract. In the alternative, the Department and the Contractor may each sign a separate Contract/Amendment and the two separately signed documents may be attached representing one executed Contract/Amendment, provided there are no conflicts in the information contained on each signed document.

PLEASE NOTE: Any corrections to information on the Standard Contract Form after execution must be initialed and dated by the parties. Faxed copies of initialed changes are sufficient for records management purposes, although hardcopies are preferred.

REQUIRED STANDARD CONTRACT FORM CONTENTS CHECKLIST

Originals or true attest copies of contracts. Massachusetts G.L. c. 7A, s. 5 requires that either the original or a certified copy of all Contracts be filed as directed by the Comptroller. The "record copy" contents of a Contract (as listed below) must be filed either at CTR, OSD (commodity contracts) or at the Department if so delegated. Pursuant to the Delegation of MMARS Transaction Policy and 815 MCR 10.00, Departments retain the record copy of all contract documents. If a Contract exceeds the published delegation threshold, the Department must submit a copy of Contract package to CTR or OSD (Commodity contracts) for secondary review using the appropriate Transmittal Form (if applicable). CTR or OSD secondary review is not legal approval of a Contract, but an expedited quality assurance review to ensure Contract documents support minimum procurement and contracting requirements. All contracts are subject to additional post audit and quality assurance reviews. The Standard Contract Form instructions are incorporated by reference and are not required to be filed as part of the original or true attest copy of the Standard Contract Form. A Department official who has seen the original of a document can attest that a copy submitted is a "true attest" or "true copy" of the original. This certification can be done on the top page of the copy or by attachment. See also Department Head Signature Authorization Policy. For additional guidance for contents and submission requirements see Contracts Quick Reference and State Finance Law and General Requirements Policy. In addition to this Standard Contract Form, the following Contract content checklists apply to each respective contract type:

COMMONWEALTH OF MASSACHUSETTS - STANDARD CONTRACT FORM



CONTENT CHECKLIST FOR NEW CONTRACTS

- ☐ **Applicable Commonwealth Terms and Conditions:** Department must verify if Contractor is already on VCUST table on MMARS. New Contractors must have T&C filed with CTR along with appropriate VCC/VCM to update table. T&C must be on file with VCUST before encumbrance can be entered for this Contract. For an existing Contractor's *Standard Contract Form*, Contractor information must match VCUST table for the Vendor Code, Division and Remittance address. (AD001, AD002...)
- ☐ **Evidence of Procurement (if procurement done):** A copy of the RFR, or a Comm-PASS close-out Contract Summary screen print (provided the RFR has been properly closed out and the close-out Summary posted on Comm-PASS verifies the location of the RFR and RFR Reference Number on Comm-PASS), or copy of other solicitation, grant application, etc. (if applicable). The "Board Award Field" on MMARS Encumbrance must contain this reference number ID or exception ID (See Evidence of Exception below).
- ☐ **Evidence of Exception (If competitive procurement was not done):** Attach documentation for the exception: Justification Memorandum for Emergency; copies of legislative language or other legal exemption for Contracts with legislative earmark or legal exemption from procurement; copy of approval from OSD for Collective Purchase Contract with federal or other public entity; or copy of posting/hiring documentation and resume for Contract Employees. Attach copy of public posting or notice of intent to contract with Contractor, if done. Also include documentation of how the Contractor was selected and why this selection supports best value; See also 801 CMR 21.05 and "Competitive Procurement Exceptions" of the OSD Procurement Information Center (PIC). For grants, see by 815 CMR 2.00 and State Grants and Federal Subgrants Policy.
- ☐ Please note that if Emergency performance or other contract performance has been fully completed prior to signing this *Standard Contract Form*, and no additional performance is intended to be made after signing this Standard Contract Form, Departments may use the Settlement and Release Form in lieu of the Standard Contract Form to document completed performance to enable final payment.
- ☐ **Contractor's Response:** an original or true attest copy of the Contractor's Response (bid) to the RFR or Response to another procurement or grant application, or a copy of the Responses if the RFR/procurement was conducted by another procuring Department. Attach any additional negotiated terms that either modify or are in addition to the RFR or Response. If an RFR or other procurement was not done, attach a detailed description of the scope of performance, work or task order, and a detailed budget or schedule of fees or compensation for this Contract. Performance terms may not modify terms of applicable Commonwealth Terms and Conditions or Standard Contract Form.
- ☐ **Human and Social Services Contracts:** attach required Human and Social Services Attachments 1-6. See Instructions for Attachments.
- ☐ **Individual Contractors:** Departments hiring "individual contractors" as either "contract employees" or "independent contractors" are required to comply with the policy Individual Contractors - Independent Contractors vs. Contract Employees and attach the Employment Status Form.
- ☐ **Consultant Contracts (HH, N01-N14, U05 object codes per the Expenditure Classification Handbook):**
 - o **Contractor Disclosures.** Contractors must disclose Individuals with Financial Interest (if applicable); Other income (if applicable); and Key Personnel. Please note that key personnel may be deemed to be state or special state employees pursuant to G.L. c. 268A. Contractors may make required disclosures as part of the RFR Response, by attachment or may use the Consultant Contractor Mandatory Submission Form.
 - o **Secretariat Signoff.** Departments must obtain secretariat signoff for all contracts under G.L. s. 29, s. 29A and s. 29B PRIOR to performance beginning. Secretariat signoff does not have to be on the Standard Contract Form, but must be included as part of the Contract File.
 - o **TELP (Tax Exempt Lease Purchase).** TELP attachments: ANF TELP Authorization Form, TELP Lease Purchase Quote, Acceptance Certificate, Essential Use Letter) must be included. Certificate of Appropriation and Payment Schedule. Payment schedules must use current MMARS standard recurring payment schedule: See RPSCHD (TELP-quarterly; TEMO-monthly; TESA-semi-annual, TEAN-annual). TELPs paid with state funds must use the Commonwealth TELP (ITD) or the Statewide TELP (OSD). Please note that TELP payments take the highest priority for payment, even above payroll. Contact CTR immediately if Department faces any uncertainty of making TELPs payments on time. Please coordinate with ANF to ensure sufficient allotments to make timely payments.
 - o **Legal Services Contracts (H09, N03).** All Commonwealth Departments are required to obtain:
 - o **GOV Approval.** Attorneys hired by Executive Departments are required to competitively procure all legal services (See 801 CMR 21.01(2)(b)) and obtain prior approval of the Governor's Chief Legal Counsel PRIOR to posting or hire (See G.L. c. 30, s. 65).
 - o **AGO Review.** PRIOR to the start of performance, prior review of planned services by the Office of the Attorney General (AGO) for legal representation of the Department under a contract, and appointment as a Special Assistant Attorney General "SAAG" for litigation services. The Attorney General Review Form for Attorneys Providing Legal Services form must be completed and mailed (with required attachments) to the AGO for any new legal services contract, and for any significant amendment to the scope of services under an existing contract, PRIOR to the start of performance or a material change in performance. See: Attorney General Policy for Prior Review of Attorneys.
 - o **MMARS Encumbrance - Rates and Purpose in Comments Field.** For Executive Departments, the MMARS encumbrance "Comments field" must contain the Units and "Rates" or "Range of Rates" for the services and a brief

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description of the type of services under the engagement to enable completion of annual reporting requirements under G.L. c. 30, s. 65. Departments that fail to include this information as part of the original encumbrance will be required to modify the encumbrance to add this information in order to complete reporting requirements.

CONTENT CHECKLIST FOR AMENDMENTS

- ☐ Attach a detailed description of the changes that are being made to the scope of performance (if any), and any corresponding changes to the detailed budget or schedule of fees. For renewals funded by continuing accounts, verify if any carry over funds from prior fiscal years need to be re-authorized for the current or a future fiscal year.
- ☐ For Interim Contracts (or for grants), attach justification memorandum for reasons for Interim Contract (or for grant).
- ☐ If Contractor is undergoing a major structural change which impacts the underlying procurement, the Contractor may be required to negotiate continued performance and execute a Contractor Change in Identity Form INSTEAD of this Standard Contract Form. See the Amendments, Suspensions, and Termination Policy for additional information. Performance terms may not modify terms of applicable Commonwealth Terms and Condition or Standard Contract Form.

CONTENT CHECKLIST FOR ALL CONTRACTS AND AMENDMENTS

- ☐ Form W-9 if Contractor is not already on VCUST table (new Contracts). If new W-9, file with CTR with T&C and VCC. For Existing Vendors, verify that VCUST matches any new W-9 and the Standard Contract Form, and if there is new information on W-9 or Standard Contract Form, update VCUST with updated W-9 and VCM. For Amendments, no updates are necessary unless the Contractor's information on the Standard Contract Form is changing which may require an updated W-9 and T&C. If Contractor is undergoing a major structural change which impacts the underlying procurement, the Contractor may be required to negotiate continued performance and execute a Contractor Change in Identity Form INSTEAD of this Standard Contract Form. See the Amendments, Suspensions, and Termination Policy for additional information. Vendors must be careful when submitting W-9s that information is accurate, since the VCUST table will be updated for all business with the Commonwealth. Departments should verify with the Contractor when information is updated to ensure that the update is accurate since changes will impact all business with the Commonwealth.
- ☐ Contractor Signature Verification For All Contracts, Grants or Other Agreements. The Contractor Authorized Signature Listing, or any other alternate format, may be used for this purpose. Pursuant to the Contractor Authorized Signatory Policy, Departments are responsible for verifying that the Standard Contract Form, T&C, W-9 and other documents related to the Contract (regardless of amount) is signed by an authorized signatory for the Contractor. Verification includes authentication of identity and authority to sign of the person signing the documents.
- ☐ MMARS must match total Contract, including settlements.
 - o Current state finance law policy requires the information input in MMARS to match the underlying contract or supporting documents, including extensions, renewals and amendments. What appears in the MMARS system will be considered the "official record" or "record copy" of fiscal activities and will supersede paper or other formats of the same information. Therefore, the MMARS encumbrance must match the terms of the Contract including Vendor Code, start and end dates and compensation. If a settlement is part of the Contract or Amendment, include all settlement amounts on the same MMARS encumbrance as the Contract/Amendment, unless otherwise directed by CTR.
 - o MMARS encumbrances must be entered as soon as possible after Contract/Amendment execution to ensure funds are timely encumbered.
 - o At least one commodity line with appropriate corresponding accounting line is required for each budget fiscal year of the Contract.
 - o All supporting documentation must be included in the Contract File. Departments must remember that MMARS is an accounting system, which is used to accurately record and report on fiscal activities. Compliance responsibility remains at all times with the Department employees who process documents to "Final" status. Since MMARS will track the UAID of the Department employee who approves documents, quality assurance reviews will identify not only the documents that will be reviewed, but also the security identification (UAID) of the employee who approved the MMARS transactions. Departments must be especially careful when modifying MMARS transactions (such as encumbrances) to support contract extensions and amendments, specifically effective dates. It is improper for Departments to enter a modification to a MMARS transaction to reflect start and end dates that are not supported by the underlying Contract documentation.
 - o MMARS changes/adjustments with no underlying Contract changes do not require a Contract amendment. For fiscal changes with no underlying Contract change that exceed the Department's MMARS transaction processing limit, submit a CTR Transmittal Form referencing the Doc Id of the MMARS document and indicating the change required (Non-Commodity contracts). For example, enter the Doc Id and "Rate Contract Increase/Decrease" for Rate Contract increases and decreases in total obligations. For appropriation account changes (switching, adding or deleting accounts) with no underlying contract change, enter Doc Id and "Appropriation Account Change".
- ☐ Records Management – Procurement and Contract Files. In accordance with 815 CMR 10.00, the Department is the record keeper of the official record copy of the Contract documents and the Contract/Procurement file. MMARS is the official

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INSTRUCTIONS

The following instructions to the *Standard Contract Form* are provided to assist both Contractors and Commonwealth Departments with the interpretation and completion of the *Standard Contract Form*. These instructions, including policies, procedures and legal references, are incorporated by reference into the *Standard Contract Form*. The *Standard Contract Form* is the boilerplate contract used by the Commonwealth for commodity and service Contracts, Grants and any other agreements for which another standard boilerplate is not already prescribed by statute, regulation or policy.

The *Standard Contract Form* is not a stand alone contract document but is used as the key document that incorporates the various documents that make up a Commonwealth Contract, which include in the hierarchy of precedence: (1) the applicable *Commonwealth Terms and Conditions* or the *Commonwealth Terms and Conditions for Human and Social Services* (T&C) (2) this *Standard Contract Form*, (3) a Request for Response (RFR), other procurement solicitation document, or procurement exception supporting documentation, (4) the Contractor's response to the RFR or other solicitation, or scope of performance and budget for procurement exceptions, and (5) any other non-conflicting negotiated terms and conditions and attachments. Departments may not sign Vendor Contracts but may attach copies of the Contracts, with appropriate redaction of conflicting terms. A Contractor may not condition execution of the *Standard Contract Form* or the applicable T&C on the Department's signing the Contractor's contract or other contractual form, invoice, or other documents with additional or conflicting contractual terms. Any of these attached terms or documents shall be superseded by the documents in the order of precedence listed above.

Note: Any changes to the official printed language of this form shall be void. This form is designed to have data electronically added, rather than manually completed and table boxes will expand to accommodate text that is required to be added. Departments and Contractors may not alter the format or add fields to the form. The Department and a Contractor may negotiate by attachment, any additional language which clarifies their understanding of, but does not change, the language of the applicable *Commonwealth Terms and Conditions* and this *Standard Contract Form*. Clarifications may fill in the gaps and "spell-out" the understanding of the Department and the Contractor regarding their respective contract responsibilities. Clarifications may not be used to have the effect of negating, modifying, or replacing language in the applicable *Commonwealth Terms and Conditions* or this *Standard Contract Form*. For example, the following are acceptable additional terms: prior written notice periods, types of reports and timing of submission, details of delivery or acceptance of performance, records storage requirements, identifying what items are considered "deliverables" and what items are "contractor materials" that are already copyrighted or owned prior to the Contract, and are being used to complete performance. Ownership cannot be conveyed after performance if the Commonwealth has paid for development of a deliverable with just compensation.

Contract Should be Sent and Reviewed Electronically. The *Standard Contract Form* is designed to be used electronically and should be reviewed by Contractors online to ensure access to hyperlinked references. Departments completing the *Standard Contract Form* for execution should enter the information electronically and send the form electronically to the Contractor to ensure timely completion and execution.

Links to policies, procedures and legal references. Text that appears italicized and underlined in the *Standard Contract Form* indicates a "hyperlink" that will link you to an Internet or bookmarked site for the particular reference being cited. Pressing the "Alt" and "F9" keys while in the Microsoft® Word version of this document will display the full text of hyperlinks which can be copied and pasted or typed into your Internet browser address field if you can not connect directly to the Internet by clicking on a hyperlink. Hyperlinks to legal requirements such as statutes and regulations are links to unofficial versions of these documents. While reasonable efforts have been made to assure the accuracy of the data provided, Departments and Contractors should consult with their legal counsel to ensure compliance with all legal requirements. Using the Web Toolbar will make navigation between the form and the hyperlinks easier. Please note that not all applicable laws have been cited in this document. Instructions and hyperlinks may be added or changed without notice, so please periodically check this document at: www.mass.gov/osc under *Guidance For Vendors - Forms* or at www.mass.gov/osc under *OSD Forms* for updates.

A Department is **NOT** responsible for providing a paper copy of the *Standard Contract Form* Instructions to Bidders or Contractors. The *Standard Contract Form* Instructions are incorporated by reference into the *Standard Contract Form* and do not have to be filed with the completed Contract documents. Departments and Contractors are responsible for reviewing the *Standard Contract Form* electronically online including the Instructions and hyperlinks.

Contractor Name (and d/b/a): Enter the full legal name of the Contractor's business as it appears on the Contractor's W-9 Form and the applicable *Commonwealth Terms and Conditions*. If Contractor also has a "doing business as" (d/b/a) name, both the legal name and the "d/b/a" name must appear in this section. Changes to the Contractor's Legal Name without a *major structural change* (such as a merger or consolidation) will require an updated W-9 and *Commonwealth Terms and Conditions* signed by an Authorized Signatory of the Contractor and filed with CTR. The Department should update the Contract and attachments either at the time of the name change, or when the Contract is next amended. The Department is required to make the necessary changes using a VCM for the VCUST table to update the Contractor's Vendor Code.

Contractor Legal Address: Enter the Legal Address of the Contractor which matches the W-9 filed for this Contractor where all tax reporting forms will be sent. This address must match the legal address the Contractor has on file with the Internal Revenue

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Service (IRS) and the Department of Revenue (DOR) and must match the 1099 information for the Vendor Code listed for this Contract. Updates to the Legal Address without a major structural change to the Contractor (such as a buyout, merger, or other change) requires an updated W-9 from an Authorized Signatory of the Contractor, but does not require other contract document changes. The Department is required to make the necessary changes using a VCM for the VCUST table to update the Master and Legal Addresses for the Contractor's Vendor Code.

Contractor Payment Remittance Address: Also enter the "Remittance Address" if payments are to be mailed to a separate mailing address, which much match the remittance address on the W-9 submitted by the Contractor. Unless otherwise specified in the Contract, legal notice sent or received by the Contractor's Contract Manager (with confirmation of actual receipt) through the listed address, fax number(s) or electronic mail address will meet any requirements for written notice under the Contract. Updates to the Remittance Addresses require an updated W-9 from an Authorized Signatory of the Contractor, but do not require other contract document changes. The Department is required to make the necessary changes using a VCM for the VCUST table to update the Master and Legal Addresses for the Contractor's Vendor Code.

- **Contractor Major Structural Change.** The Contractor is required to provide the Department with a minimum of 45 days written advance notice of any planned or potential structural change (merger, buyout, acquisition, consolidation). Contract performance may not be automatically assigned to the new entity (since the underlying procurement may be affected) and the Contractor may be required to negotiate continued performance and execute a Contractor Change in Identity Form in lieu of a Standard Contract Form. See the Amendments, Suspensions, and Termination Policy for additional information.

Contractor Contract Manager: Identify the authorized Contract Manager who will be responsible for managing the Contract. The Contract Manager should be an Authorized Signatory or, at a minimum, a person designated by the Contractor to represent the Contractor, receive legal notices and negotiate ongoing contract issues. The Contract Manager is considered "Key Personnel" and may not be changed without the prior approval of the Department. Notice of a change of Contract Manager may be sent in writing by letter, e-mail, or fax to the Department Contract Manager and does not require a formal Amendment. If the Contract is listed on Comm-PASS, the Contract Manager should be listed in the Vendor Section.

Contractor Phone/Fax/TTY/E-Mail Address: Identify the phone, fax and TTY/TTD number(s) and electronic mail (e-mail) address of the Contract Manager. The Contractor is required to ensure that this information is kept current to ensure that the Department can contact the Contractor and provide any notice under the Contract. Unless otherwise specified in the Contract, legal notice sent or received by the Contract Manager (with confirmation of actual receipt) through the listed address, fax number(s) or electronic mail address will meet any requirements for written notice under the Contract. Notice of a Change of this information may be sent in writing, by e-mail or fax to the Department Contract Manager and does not require a formal Amendment. If the Contract is listed on Comm-PASS, the Contract Manager information should be listed in the Vendor Section.

State of Incorporation: If Contractor is a corporation, enter the state in which the Contractor is incorporated. If the Contractor is not a corporation enter "N/A".

Contractor Vendor Code: Enter the state accounting system Vendor Code (also known as the Vendor Customer Number) assigned by the Commonwealth. If a Vendor Code has not been assigned, leave this space blank and the Department will complete this section when a Vendor Code has been assigned. The Department must ensure that the Contractor's Vendor Code matches the Vendor Code created on the state accounting system MMARS VCUST table. If the Contractor has a Vendor Code with multiple payment remittance addresses (see the MMARS VEND file), the Department must verify the correct Vendor Code with the Contractor to ensure timely and properly directed payments. See Vendor/Customer Policy. The Contractor's failure to verify the correct Vendor Code will waive the Department's liability for late payment interest for payments sent to the incorrect remittance address. A change in Vendor Code is usually considered a significant Contract Amendment (unless the change involves no major structural change and the underlying procurement is not affected). Changes in Vendor Codes which result in change of Contractors are restricted (see major structural change).

MMARS Object Code: MMARS is the Massachusetts Management and Accounting Reporting System. This field is entered by the Department and should identify the MMARS Object Code(s) from the Expenditure Classification Handbook that represent the type of expenditures for this Contract, and is used to match with the MMARS encumbrance transaction. The object code may be changed by the Department without a formal amendment.

Department MMARS Alpha Code and Name: Enter the MMARS Department Alpha code assigned to this Department and the full legal Department name, which must be a Department recognized in the MMARS state accounting system with a three (3) letter MMARS Code. A Division within a recognized MMARS Department may not sign contracts or make other obligations, but must have contracts and other obligations signed under the Department recognized in MMARS.

Department Contract Manager: Identify the authorized Contract Manager who will be responsible for managing the Contract. The Contract Manager should be an authorized signatory or, at a minimum, an employee designated by the Department to represent the Department to receive legal notices and negotiate ongoing contract issues. Notice of a proposed change of a Contract Manager may be sent in writing by letter, e-mail or fax to the Contractor's Contract Manager (with confirmation of actual receipt) and does not require a formal Amendment.

Department Business Mailing Address: Enter the address where all formal correspondence to the Department must be sent. Unless otherwise specified in the Contract, legal notice sent or received by the Department's Contract Manager (with confirmation of actual receipt) through the listed address, fax number(s) or electronic mail address for the Contract Manager will meet any requirements for written notice under the Contract.

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Department Billing Address: Enter the Billing Address if invoices must be sent to a different location. Billing or confirmation of delivery of performance issues should be resolved through the listed Contract Managers.

Department Phone/Fax/TTY/E-Mail Address: Identify the phone, fax and TTY/TTD number(s) and electronic mail (e-mail) address for the Contract Manager. Unless otherwise specified in the Contract, legal notice sent or received by the Contract Manager (with confirmation of actual receipt) through the listed address, fax number(s) or electronic mail address will meet any requirements for written notice under the Contract.

MMARS Document ID: Enter the state accounting system (MMARS) encumbrance transaction number associated with this Contract. The same MMARS Document ID should be used as a reference number on all transactions, documentation or other correspondence related to the Contract for audit, Quality Assurance and Records Management purposes. This information can be entered after the Contract is executed. If more than one ID has been used for this Contract or Amendment, identify all that apply. This information must be completed for all contracts and amendments. For Statewide Contracts, OSD may enter the Comm-PASS ID in addition to the MMARS doc id.

Request for Response (RFR)/Procurement Reference number or other Contract Identifier. Enter the reference number of the RFR or other Procurement Number for this Contract or Amendment (even if you are using an RFR that was issued by another Department). If the RFR was posted on Comm-PASS, use RFR Reference Number as posted. If an RFR was not used, enter Contract No. or other reference number. If none, indicate "N/A". This information is necessary for Audit, Quality Assurance and Records Management purposes.

Account(s) Funding Contract: Enter the account(s) funding the Contract. This information can be entered after the Contract is executed. If more than one ID has been used for this Contract or Amendment, identify all that apply. This information must be completed for all contracts and amendments. Funding accounts may change during the life of Contract. Please note that accounts with earmark language that provide a procurement exception may not be replaced in whole or in part with a different funding account (that does not have earmarked or procurement exception language) unless a procurement process or exception is supported under the new funding account. Earmark or procurement exception authorization in one account is not transferable to another funding source.

CONTRACT TYPE: The Department must select one of two options to indicate whether this is a "NEW CONTRACT" or a "CONTRACT AMENDMENT/RENEWAL" and complete the "Left" side only for New Contracts, and the "Right" side only for Contract Amendments/Renewals.

FOR NEW CONTRACTS (left side):

COMPENSATION: Identify if the Contract has a **Maximum Obligation** or is a **Rate Contract**:

- **Maximum Obligation.** A maximum obligation is used for either unit-based or project-based compensation when performance (commodity, service, grant, etc.) is predictable and measurable and a maximum amount of funds will be set aside for the Contract.
 - The amount entered in this space must be fully encumbered by the Department for the duration of the Contract (including "out years" for multi-year contracts) according to the **Effective Date**, and any settled obligations that are included.
 - Any fiscal year in which Contract Terms will still be effective, but no compensation will be paid, must also be reflected in MMARS to ensure that the total duration of the Contract is included.
 - The attached budget or cost information must match the Contract Maximum Obligation (or as amended) and the MMARS transaction.
- **Rate Contract.** A Rate Contract is used when the rate per unit of performance (e.g., commodity or service) is known but the number of units that will be needed during the Contract period is unknown or may vary based upon need or usage. Rate Contracts are also used when there are multiple Contractors available to provide performance and it is unknown which Contractors will be selected at any given time to provide performance. If the Rate Contract is signed solely with one Contractor, the Department must encumber sufficient funds on behalf the Contractor to support the anticipated use of the Contract. If the Rate Contract is signed with multiple Contractors that may or may not provide performance during the Contract period, the Department must encumber sufficient funds to support the anticipated use of the Contract. The encumbrances may be "vendor specific" with one encumbrance per Contractor, or may be done through a Departmental Master Agreement (MA) or a **CT with Event Type 51** ("open order") if not tied to a Departmental MA (where funds are not encumbered on behalf of any single Contractor). Attach rates and types of unit (per hour, day, week, item, etc.) including any supporting documentation for rates. If rates are to be negotiated, attach a description of the process, index or schedule that will be used to negotiate the rates. Rate Contracts with negotiated rates should identify a range of rates or a cap in rates and may not be used for open-ended arrangements but are appropriate for lists of pre-qualified contractors and certain Statewide Contracts for which rates are negotiated on a per project, program, task or work order basis depending upon the performance required.

Commonwealth Terms and Conditions That Apply To This Contract: Check either "Commonwealth Terms and Conditions" or "Commonwealth Terms and Conditions for Human and Social Services", whichever is applicable to the Contract performance. (See Expenditure Classification Handbook for assistance in determining applicable Commonwealth Terms and Conditions). The applicable "T&C" is signed only once by the Contractor and filed by the initial contracting Department with the Office of the Comptroller (CTR) and is recorded on the VCUST table on the "Business Type" screen. The signed and filed Commonwealth Terms and Conditions will be incorporated by reference and apply to any contract, Grant or other agreement entered into by the

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Contractor and any Commonwealth Department. Therefore, Contractors do not have to re-sign the applicable T&C for subsequent procurements or contracts, unless the Contractor has a legal name change, or a major structural change.

Departments are required to verify that the T&C is executed by an Authorized Signatory of the Contractor. The applicable T&C must be on file at CTR PRIOR to submitting this Contract for encumbrance processing at either CTR or OSD, or if the Department has transaction delegation, prior to processing the encumbrance in MMARS. A Department must check the MMARS VCUST under the "Business Type" tab to determine if the Contractor has already signed the applicable Commonwealth Terms and Conditions and should not request additional copies if already filed. Contractors may submit photocopies of a previously signed T&C if so requested. Additional original T&Cs should not be retained by a Department, but must be sent to the Office of the Comptroller Payee Unit to be maintained on file to ensure that CTR and the VCUST table reflect the most recent documents.

If the Contractor does not have the applicable Commonwealth Terms and Conditions on file and recorded on the MMARS VCUST table, the Department must complete a VCM on MMARS and then mail the completed Commonwealth Terms and Conditions to CTR's Payee Unit. Changes to the Contractor's identity during the period of the Contract require an updated W-9 and execution of another Commonwealth Terms and Conditions reflecting the new information. See Guidelines for Material Changes in Contractor Identity under Amendments, Suspensions, and Termination Policy. For more information on Vendor Code requirements see Vendor File Policy.

Procurement or Exception Type: Check the appropriate type of procurement or exception for this Contract. Only one option can be selected.

- **Commodity or Service Contracts.** If the Contract is for the procurement of commodities or services, the Department must indicate if the Contract was procured as a "Single Department Procurement/Single Department User Contract"; "Single Department Procurement/Multiple Department User Contract"; "Multiple Department Procurement/Limited Department User Contract"; or a "Statewide Contract (Only for use by OSD or an OSD-designated Department)". See Commodities and Services Policy and Use of a Procurement by a Single or Multiple Departments for more information and documentation requirements for these options.
- **Grants.** If the Contract is being used for the award of a Grant, the Department must check "Grant". Grants are governed by 815 CMR 2.00 and State Grants and Federal Subgrants Policy. See "Required Standard Contract Form Contents" below for additional information.
- **Competitive Procurement Exception.** If the Contract did not result from a competitive procurement, the Department must check off the appropriate exception: "Emergency Contract"; "Contract Employee"; "Collective Purchase approved by OSD"; a "Legislative/Legal Exemption" or "Other" (and specify procurement exception). Documentation proving the exception and a justification memorandum identifying how the Contractor was selected and why the selection represents best value, must also be attached. See "Required Standard Contract Form Contents" below for additional information. Please note that the "Interim Contract" competitive procurement exception is only available for Contract Amendments/Renewals (right side of form; see below).

Anticipated Start and End Dates: See Effective Date, Anticipated Start Date and End Date below.

FOR CONTRACT AMENDMENT/RENEWAL (right side):

There are no automatic Contract Renewals and both parties must execute an Amendment for a Contract Renewal. Any "material" change in the Contract terms must also be memorialized in an Amendment even if the Maximum Obligation or a corresponding MMARS transaction is not needed to support the change. "Material" changes are any significant change to the performance obligations of a Contractor or the performance expectations of the Department (such as any change in duration or maximum obligation). Minor adjustments to the scope and budget that do not materially impact the maximum obligation or performance responsibilities of the Contractor, or do not materially change the performance expectations of the Department do not require a formal Amendment, but it is presumed that the terms of performance (scope) and costs (budget) will be updated as part of the Contract file, unless already identified under the Contract. See Amendments, Suspensions, and Termination Policy for further guidelines on Amendments and Options to Renew.

The parties may negotiate a change in any element of contract performance or cost identified in the RFR or the Contractor's response which results in lower costs, or a more cost-effective or better value performance than was presented in the original selected response. Provided the negotiation results in a better value within the scope of the RFR than what was proposed by the Contractor in the original selected response, it is negotiable.

CURRENT CONTRACT START AND END DATES: Enter the "Current Start Date" and the Current End Date" for the Contract prior to the Amendment. This information is necessary to validate the MMARS transaction that is being changed and to ensure that the dates of performance are accurate for the entire duration of the Contract. This information can be obtained from the original contract form, or if previously amended from the Amendment Form.

COMPENSATION: Check either, "No Compensation Change"; "Redistribute Budget Line Items"; "Maximum Obligation" or "Rate change".

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- **No Compensation Change**, should only be selected if there is no change to the compensation under the Contract, including Maximum Obligation, Line-item redistribution or Rates. Then Skip to "Other" and identify the type of Amendment being made and attach documentation for change.
- **Budget Line Items Redistribution (No Maximum Obligation Change)**. Identify any changes in budget line items that move funding around within current Maximum Obligation and procurement parameters. Attach amended performance and budget terms to support redistribution.
- **Maximum Obligation Change**. (Check off this section and complete if Maximum Obligation is increasing or decreasing.)
 - a) Enter Current Total Contract Maximum Obligation (prior to Amendment/Renewal reflecting all prior amendments).
 - b) Enter the Amendment/Renewal Amount (indicate whether increase or decrease by including "+" or "-" respectively before the amount). (MMARS transaction must match this amount.)
 - c) Enter New Total Contract Maximum Obligation, which must equal the Current Total Contract Maximum Obligation plus ("+") or minus ("-") the Amendment/Renewal amount. (MMARS transaction must match this amount.)
 - d) **Note: Carry over funds**. Multi-year contracts in which encumbered amounts in any fiscal year that remain unexpended at the close of the fiscal year are NOT automatically available for compensation for Contractor performance in subsequent fiscal years unless so authorized by the Department. For operating accounts, unexpended balances revert at the close of the fiscal year and are not available for subsequent fiscal year obligations. Unexpended, encumbered amounts in continuing accounts (federal, trust, capital) will balance forward obligation ceilings for these amounts in MMARS. The Department is responsible for reconciling performance and expenditures in each fiscal year and authorizing use of carry over amounts for performance in the subsequent fiscal year(s) either as part of amendments to the scope and budget of the Contract, and underlying MMARS transactions, or as part of the original Contract performance terms and budget.
- **Rate Changes to Rate Contract**. (Check off this section if Rates are being changed. Attach rate changes.)

OTHER (Check off Change and attach all supporting documentation):

- **Amend Duration Only (No Compensation Change)**: Check off this section only if duration is being changed with no changes to compensation or performance. This option is commonly used to extend the date for completion of performance with no additional compensation.
- **Amend Scope of Services/Performance Only** (no budget impact): Attach detailed description of changes to Scope or performance.
- **Interim Contract**: Check off this section for a temporary extension (Interim Contract) of a current Contract in order to accommodate the completion of a new procurement.
- **Other**: (Describe Details of the other type of amendment and attach documentation)

Payments and Prompt Pay Discounts. Payments under this Contract or Amendment are made in accordance with the applicable Commonwealth Terms and Conditions and the Commonwealth Bill Paying Policy.

- **Electronic Funds Transfer (EFT)**. If the Contractor does not yet receive payments electronically, the Contractor should complete the Authorization for EFT Payments Form. In addition to sending the remittance information to the Contractor's financial institution with the payment, CTR's MassFinance/Vendor Web site allows Contractors access to their remittance information, payment history and pending payments under their Vendor Code (listed above).
- **Legal Payment Date**. An invoice/obligation is considered legally paid based upon the Payment Issue date recorded in the state accounting system (MMARS) which will be when the payment is issued by the Commonwealth via EFT (Electronic Funds Transfer) when issuance file is transmitted to the bank or, for checks, when the check is sent to the U.S. Post Office by the State Treasurer's Office. The issuance date is the relevant date for Prompt Payment Discounts. (See Prompt Pay Discount Policy.) Under the applicable Commonwealth Terms and Conditions, pursuant to G.L. c. 29, s. 26, s. 27 and s. 29, obligations may not be incurred unless there are sufficient appropriated or non-appropriated funds available and allotted to support the obligations.
- **Intercept**. All payments due to the Contractor shall be subject to intercept pursuant to G.L. c. 7A, s. 3 and 815 CMR 9.00. Overpayments shall be reimbursed by the Contractor or may be offset by the Department from future payments in accordance with state finance law. Offset shall include intercept of other funds paid to the Contractor from other state Departments. The Contractor may not penalize any state Department or assess late fees, or cancel a Contract or other services if funds are intercepted due to outstanding taxes, child support, or other overdue debts of the Contractor.
- **Prompt Payment Discounts**. This section of the Contract/Amendment is used to identify prompt payment discounts that the Contractor has agreed to provide if the Contractor is issued payment in less than the standard payment cycle of 30 days via EFT. (See Commonwealth Bill Paying Policy and Prompt Pay Discount Policy.) Prompt Payment Discounts are of greatest benefit to both the Commonwealth and the Contractor if the Contractor accepts payments through EFT. If the Contractor does not yet receive payments electronically, the Contractor should complete the Authorization for EFT Payments Form. Prompt Payment Discounts should be negotiated for commodity and service contracts. If an Amendment is being executed, the current Prompt Payment Discounts should be re-entered and verified as current or new Prompt Payment Discounts should be entered if more beneficial to the Commonwealth. Check off the box if the Contractor has demonstrated a hardship from providing PPD or the Contract is for a grant, other financial assistance or other non-commodity or service that would not normally identify PPDs.

COMMONWEALTH OF MASSACHUSETTS - STANDARD CONTRACT FORM



- **Invoices.** Invoices must be submitted in accordance with the terms of the Contract and the Bill Paying Policy. Final invoices in any fiscal year must be submitted no later than August 15th for performance made and received (goods delivered, services completed) prior to June 30th, in order to make payment for that performance prior to the close of the fiscal year and reversion of appropriated funds. By signing this Contract or Amendment the Contractor agrees that if the Contractor fails to provide timely final invoices for final payments by August 15th, the Department may make payment based upon the terms and prices of the Contract for the goods or services that are accepted by the Department, and the Contractor's acceptance of payment shall release the Commonwealth from further claims for payment. If the Contractor disputes the final payment and refuses payment, available funds may revert and may be delayed significantly until funds are available to make payment once the dispute is resolved, and the Department will not be subject to late payment interest for this delay.
- **Pandemic, Disaster or Emergency Performance.** In the event of a serious emergency, pandemic or disaster outside the control of the Department, the Contractor agrees the Department may request performance changes related to the Contract, or may negotiate additional performance from the Contractor to address the emergency needs of the Commonwealth (subject to appropriation), even if not contemplated under the original Contract. Departments will receive guidance on allowable or mandated emergency actions in the event of an emergency.

Brief Description of Contract Performance: Enter a brief description of the Contract performance, project name and/or other identifying information for the Contract or the reason for the Contract or Amendment. The description is used to specifically identify the Contract performance, match the Contract with attachments, and determine if the appropriate expenditure code (as listed in the Expenditure Classification Handbook) has been selected. Merely stating "see attached" or referencing attachments without a narrative description of performance is insufficient. The Department may include any additional information in this section to identify unique or important information related to this Contract or the Contractor.

Effective Date, Anticipated Start Date And End Date

- The "Effective Date" of the Contract or Amendment is determined by the execution dates of the Contract and any required approvals as outlined in Section 1 of the applicable Commonwealth Terms and Conditions. For contracts exceeding the MMARS transaction delegation threshold that are routed through workflow to CTR and OSD may have the dates corrected in the state accounting system (MMARS) to reflect the legal Contract Effective Date, as appropriate.
- For Contracts using the Commonwealth Terms and Conditions, "the effective start date of performance under a Contract shall be the date a Contract has been executed by an authorized signatory of the Contractor, the Department, a later date specified in the Contract or the date of any approvals required by law or regulation, whichever is later."
- For Human and Social Service Contracts using the Commonwealth Terms and Conditions for Human and Social Services, "the effective start date of a Contract shall be the later of: the date the Contract was executed by an authorized signatory of the Contractor; the date the Contract was executed by an authorized signatory of the Department; the date specified in the Contract; or the date of Secretariat authorization pursuant to G.L. c. 29, s. 29B."

The Contractor and the Department are required to certify that the "Effective Date" of the Contract or Amendment being executed is the latest date the Contract or Amendment has been executed by an authorized signatory of the Contractor, the Department, a later Start Date specified, or the date of any required approvals. If the Effective Date of the Contract or Amendment is later than the Start Date listed, the Contractor and Department agree that by signing the Contract or Amendment they have identified if any obligations have been incurred prior to the Effective Date for which a payment obligation has been triggered prior to that date, which shall be included as final settlement of these obligations as part of the Contract/Amendment and payment of these obligations shall release the Commonwealth from any claims related to these obligations.

- **Anticipated Contract/Amendment Start Date:** The Department must enter the "anticipated" start date of "obligations" under the Contract that will trigger a payment obligation. Departments must consider when a payment obligation is "incurred" (creates an obligation to make payment). For most goods, payments obligations are incurred when goods are delivered and accepted. For services, the Contract should specify if obligations are incurred based upon performance (such as performance charged at an hourly rate as services are provided; services for clients in residence, services upon request) or the date the services are made available (such as the start date of maintenance or customer service hours are available for use), or whether the performance obligation occurs at a later date, such as when a periodic, final report, program or system component is delivered and accepted, or other Contract milestone has been achieved (delivered and accepted). Most grants provide financial assistance for a public purpose, rather than a fee for service or good (or other performance) for the Department, and will have installment payments with obligations being incurred based upon the schedule of payments, grant milestones or reporting requirements in the Contract, not the actual date grant performance is started.
- **End Date of this Contract/Amendment:** The Department must enter the date the Contract will terminate. A Contract must be signed for at least the initial duration listed in the RFR, or other solicitation document (if applicable). Amendments to extend the termination date, such as exercising an option to renew, must be made using this Form and must be signed prior to any new obligations being incurred by the Contractor. Please see Amendments, Suspensions, and Termination Policy for additional guidelines.

CERTIFICATIONS AND EXECUTION: As part of Contract/Amendment execution, the Department and Contractor must identify whether any obligations were performed prior to the "Effective Date" of the Contract or Amendment (as outlined above). Contractors are not authorized to deliver performance for which compensation is sought under a contract or amendment (even if requested by the Department or any other Commonwealth representative) prior to the Contract effective start date of that contract or after the

COMMONWEALTH OF MASSACHUSETTS - STANDARD CONTRACT FORM



record of the encumbrance and payment documents and will supersede any paper copies of the same information. The Contract/Procurement file must contain, or refer to the location of, all documentation related to the Procurement and resulting Contract(s). A Department is responsible for retaining and archiving Contract records in accordance with the Statewide Records Retention Schedule issued by the Secretary of State Records Conservation Board.

- ☐ **Public Information and Privacy Concerns.** It is important to provide Contractors with remittance information that will facilitate proper payment application to their receivables. When negotiating a Contract, Departments should establish a mutually agreeable data structure to communicate goods delivered or services rendered. Since these fields are a matter of public record, MMARS Doc IDs (encumbrances, payments, etc.), vendor invoice numbers, contract numbers, check descriptions, and any comment fields MUST NOT contain personal information (such as individual's names, SSN numbers, bank account numbers, date of birth, addresses etc.) or other information that could jeopardize privacy or facilitate identity theft. MMARS Doc IDs and key comment fields may be printed on checks, sent electronically as part of remittance advice, and will appear on VendorWeb (and may be viewed related to public records requests), therefore care must be taken that individual personal information is not used.

CONTRACTOR CERTIFICATIONS AND LEGAL REFERENCES

By executing this Contract, the Contractor under the pains and penalties of perjury, makes all certifications required under the certifications listed below, and has provided all required documentation and disclosures (identified below with an "→"), or shall provide any required documentation upon request, and the Contractor agrees that all terms governing performance of this Contract and doing business in Massachusetts are attached to this Contract or incorporated by reference herein, including in the following order of precedence: the terms of the applicable Commonwealth Terms and Conditions available at www.mass.gov/osc under Guidance For Vendors - Forms or at www.mass.gov/osc under OSD Forms, the terms of the Standard Contract Form and attached Instructions, the Request for Response (RFR) or solicitation (if applicable), the Contractor's response to the RFR or solicitation (if applicable), and any additional non-conflicting negotiated provisions:

- The Contractor is qualified and shall at all times remain qualified to perform this Contract; that performance shall be timely and meet or exceed industry standards, including obtaining requisite licenses, registrations, permits and resources for performance; and that the Contractor shall provide access to records to state officials under Executive Order 195 and G.L. c. 11, s. 12; and the Contractor certifies that the Contractor and any of its subcontractors are not currently debarred or suspended by the federal or state government under any law or regulation including, Executive Order 147; G.L. c. 29, s. 29F and G.L. c. 152, s. 25C;
- The Contractor shall comply with the terms of the Request for Response (RFR) or solicitation for this Contract, if applicable; and any additional negotiated provisions for this Contract. Including the RFR - Required Specifications if an RFR was done for this Contract, which are incorporated by reference herein if not already included as part of the Request for Response under 801 CMR 21.00; or for any other procurement;
- The Contractor shall comply with all applicable state laws and regulations including Massachusetts General Laws; Official Code of Massachusetts Regulations; Partial CMR Listing; 801 CMR 21.00 (Procurement of Commodity and Service Procurements, Including Human and Social Services); 815 CMR 2.00 (Grants and Subsidies); 808 CMR 1.00 (Compliance, Reporting and Auditing for Human And Social Services); AICPA Standards; confidentiality of Department records under G.L. c. 66A; and the Massachusetts Constitution Article XVIII if applicable.
- The Contractor agrees to the terms for "Effective Date" and "Payments" and any terms under the Instructions of this Contract or Amendment. The Contractor certifies that there is no authorization to deliver performance for which compensation is sought under this Contract or Amendment (even if requested by the Department or any other Commonwealth representative) prior to the effective date and that any oral or written representations, commitments or assurances made by the Department or any other Commonwealth representative are not binding and a Department may not back-date this Contract or Amendment in order to cover the delivery of performance prior to the Effective date. The Commonwealth has no legal obligation to compensate a Contractor for performance that is not requested and is intentionally delivered by the Contractor outside the scope of a Contract or Amendment.
- The Contractor certifies Tax Compliance with Federal tax laws; State tax laws including G.L. c. 62C, G.L. c. 62C, s. 49A (the Contractor has complied with all laws of the commonwealth relating to taxes, reporting of employees and contractors, and withholding and remitting of child support and is in good standing with respect to all returns due and taxes payable to the commissioner of revenue); reporting of employees and contractors under G.L. c. 62E, withholding and remitting child support including G.L. c. 119A, s. 12;
- The Contractor certifies it has not been in bankruptcy and/or receivership within the last three calendar years, and the Contractor certifies that it will immediately notify the Department in writing if there is any risk to the solvency of the Contractor that may impact the Contractor's ability to timely fulfill the terms of this Contract or Amendment.
- The Contractor shall affirmatively disclose the details of any pertinent judgment, criminal conviction, investigation or litigation pending against the Contractor or any of its officers, directors, employees, agents, or subcontractors of which the Contractor has knowledge, or learns of during the Contract term. Law firms or Attorneys providing legal services are required to identify any potential conflict with representation of any Department client in accordance with Massachusetts Board of Bar Overseers (BBO)

COMMONWEALTH OF MASSACHUSETTS - STANDARD CONTRACT FORM



rules. Contractors must affirmatively disclose any potential structural change in its organization at least 45 days prior to the change.

- **Corporations.** If incorporated, the Contractor certifies that it has identified the Contractor's state of incorporation, and the Contractor certifies compliance with all filing requirements of both the incorporating state and the Massachusetts Secretary of State. If the Contractor is a foreign corporation, the Contractor certifies compliance with all requirements for certification, reporting, filing of documents and service of process.
- **Filing of required certificates and reports.** The Contractor certifies compliance with filing requirements for the Secretary of the Commonwealth and Office of the Attorney General or other Departments as related to its conduct of business in the Commonwealth;
- **Employer requirements.** If an employer, the Contractor certifies compliance with applicable state and federal employment laws or regulations, including but not limited to minimum wages and prevailing wage programs and payments; unemployment insurance and contributions; workers' compensation and insurance, child labor laws, AGO fair labor practices; G.L. c. 149 (Labor and Industries); G.L. c. 150A (Labor Relations); G.L. c. 151 and 455 CMR 2.00 (Minimum Fair Wages); G.L. c. 5, s. 1 (Prevailing Wages for Printing and Distribution of Public Documents); G.L. c. 151A (Employment and Training); G.L. c. 151B (Unlawful Discrimination); G.L. c. 151E (Business Discrimination); G.L. c. 152 (Workers' Compensation); G.L. c. 153 (Liability for Injuries); 29 USC c. 8 (Federal Fair Labor Standards); 29 USC c. 28 (Federal Family and Medical Leave Act); AGO Consumers and Civil Rights;
- **Federal And State Laws And Regulations Prohibiting Discrimination** including but not limited to the Americans with Disabilities Act, 42 U.S.C. Sec. 12,101, et seq., Disability Law Resources; the Rehabilitation Act, 29 USC c. 16 s. 794; 29 USC c. 16 s. 701; 29 USC c. 14, 623; the 42 USC c. 45; (Federal Fair Housing Act); G.L. c. 151B (Unlawful Discrimination); G.L. c. 151E (Business Discrimination); the Public Accommodations Law G.L. c. 272, s. 92A; G.L. c. 272, s. 98 and G.L. c. 272, s. 98A; the Massachusetts Constitution Article CXIV and G.L. c. 93, s. 103; 47 USC c. 5, sc. II, Part II, s. 255 (Telecommunication Act; Chapter 149, Section 105D; G.L. c. 151C; G.L. c. 272, Section 92A, Section 98 and Section 98A, and G.L. c. 111, Section 199A, and Massachusetts Disability-Based Non-Discrimination Standards For Executive Branch Entities, and related Standards and Guidance, authorized under Massachusetts Executive Order 478 or any disability-based protection arising from state or federal law or precedent. See also MCAD and MCAD links and Resources;
- **Northern Ireland Certification.** Pursuant to G.L. c. 7 s. 22C for state agencies, state authorities, the House of Representatives or the state Senate, the Contractor certifies that it does not employ ten or more employees in an office or other facility in Northern Ireland and if the Contractor employs ten or more employees in an office or other facility located in Northern Ireland the Contractor certifies that it does not discriminate in employment, compensation, or the terms, conditions and privileges of employment on account of religious or political belief, and it promotes religious tolerance within the work place, and the eradication of any manifestations of religious and other illegal discrimination; and the Contractor is not engaged in the manufacture, distribution or sale of firearms, munitions, including rubber or plastic bullets, tear gas, armored vehicles or military aircraft for use or deployment in any activity in Northern Ireland.
- **Executive Orders.** For covered Executive state Departments, the Contractor certifies compliance with applicable Massachusetts Executive Orders (for most recent, see Governor's Executive Orders) including but not limited to:
 - **Executive Order 481. Prohibiting the Use of Undocumented Workers on State Contracts.** For all state agencies in the Executive Branch, including all executive offices, boards, commissions, agencies, Departments, divisions, councils, bureaus, and offices, now existing and hereafter established the Contractor certifies under the pains and penalties of perjury they shall not knowingly use undocumented workers in connection with the performance of Contracts; that, pursuant to federal requirements, they shall verify the immigration status of all workers assigned to Contract without engaging in unlawful discrimination; and that they shall not knowingly or recklessly alter, falsify, or accept altered or falsified documents from any such worker. The Contractor understands and agrees that breach of any of these terms during the period of a Contract may be regarded as a material breach, subjecting Contractor to sanctions, including but not limited to monetary penalties, withholding of payments, contract suspension or termination.
 - **Executive Order 478. Non-discrimination, Diversity, Equal Opportunity, and Affirmative Action, And Executive Order 390, Establishing an Affirmative Market Program in Public Contracting.** The Contractor and any subcontractors may not engage in discriminatory employment practices; and the Contractor certifies that they are in compliance with all applicable federal and state laws, rules, and regulations governing fair labor and employment practices; and committing to purchase supplies and services from certified minority or women-owned businesses, small businesses, or businesses owned by socially or economically disadvantaged persons or persons with disabilities. These provisions shall be enforced through the contracting agency, the Operational Services Division; and/or the Massachusetts Commission Against Discrimination. Any breach shall be regarded as a material breach of Contract that may subject Contractor to appropriate sanctions.
 - **Executive Order 130. Anti-Boycott.** The Contractor warrants, represents and agrees that during the time this Contract is in effect, neither it nor any affiliated company, as hereafter defined, participates in or cooperates with an international boycott, as defined in Section 999(b) (3) and (4) of the Internal Revenue Code of 1954, as amended, or engages in conduct declared to be unlawful by Section 2 of Chapter 151 E, Massachusetts General Laws. If there shall be a breach in the warranty, representation, and agreement contained in this paragraph, then without limiting such other rights as it may have the Commonwealth shall be entitled to rescind this contract. As used herein, an affiliated company shall be any business entity of which at least 51% of the ownership interests are directly or indirectly owned by the Contractor or by a person or persons

COMMONWEALTH OF MASSACHUSETTS - STANDARD CONTRACT FORM



or business entity or entities directly or indirectly owning at least 51% of the ownership interests of the Contractor, or which directly or indirectly owns at least 51% of the ownership interests of the Contractor.

- **Executive Order 346. Hiring of State Employees By State Contractors.** Contractor certifies compliance with both the conflict of interest law G.L. c. 268A specifically s. 5 (f) and this order, and includes limitations regarding the hiring of state employees by private companies contracting with the Commonwealth. A privatization contract shall be deemed to include a specific prohibition against the hiring at any time during the term of Contract, and for any position in the Contractor's company, any state management employee who is, was, or will be involved in the preparation of the RFP, the negotiations leading to the awarding of the Contract, the decision to award the Contract, and/or the supervision or oversight of performance under the Contract.
- **Executive Order 444. Disclosure of Family Relationships With Other State Employees.** Each person applying for employment within the Executive Branch under the Governor must disclose in writing, upon such application, the names of all immediate family as well as persons related to immediate family by marriage who serve as employees or elected officials of the Commonwealth. All disclosures made by applicants hired by the Executive Branch under the Governor shall be made available for public inspection to the extent permissible by law by the official with whom such disclosure has been filed. (This section applies to Contract Employees.)
- **Consultant Contractor Certifications.** (For Consultant Contracts "HH" and "N01-N14" and "U05" object codes). Contractors may make required disclosures as part of the RFR Response, by attachment or may use the Consultant Contractor Mandatory Submission Form:
 - → **Disclosure of Additional Income.** Pursuant to the provisions of M.G.L. c. 29, s. 29A, the Contractor shall affirmatively disclose any contracts, grants or other income due from entities other than Commonwealth state Departments (including any political subdivision or public authority) during the period of a Contract. For state departments, the Department can identify all obligations and payments made through MMARS through a query or through Vendor Web using the Contractor's listed Vendor Code.
 - → **Disclosure of Persons with Financial Interest (other than the Contractor).** Pursuant to the provisions of M.G.L. c. 29, s. 29A and c. 7A, s. 6, the Contractor shall affirmatively disclose all individuals (other than the Contractor) who have a financial interest of more than one percent (1%) interest in the capital stock of the Contractor. If no disclosure is made, Contractor is certifying that this section is not applicable.
 - → **Key Personnel.** The Contractor shall identify all key personnel assigned to the performance of this Contract, in addition to the Contract Manager. Key personnel may not be changed without prior written approval of the Department.
- **Anti-Lobbying Requirements.** The Contractor certifies compliance with federal anti-lobbying requirements including 31 USC 1352; other federal requirements when receiving federal funds; Executive Order 11246; Air Pollution Act; Federal Water Pollution Control Act.

City of Gloucester
Grant Application and Check list
Granting Authority: State X Federal Other
Name of Grant: Drug Free Communities Support Program

Department Applying for Grant: Gloucester Health Department/Healthy Gloucester Collaborative

Agency-Federal or State application is requested from: Federal Grant: Substance Abuse and Mental Health Services Administration (SAMSHA)

Object of the application: Reduce substance abuse among Gloucester's youth and fund our local substance abuse prevention coalition.

Any match requirements: \$125,000 match per year. Please see attached memo describing this match requirement.

Mayor's approval to proceed: _____

Signature

Date

City Council's referral to Budget & Finance Standing Committee: _____

Vote

Date

Budget & Finance Standing Committee: _____

Positive or Negative recommendation

Date

City Council's Approval or Rejection: _____

Vote

Date

City Clerk's Certification of Vote to City Auditor: _____

Certification

Date

City Auditor:

Assignment of account title and value of grant _____

Title

Amount

Grant Budget by line item account:

Personnel/Benefits: \$75,000

Sub Contract Services: \$25,000

Out of State Travel/Training \$2,500

Supplies/equipment: \$5,000

Indirect rate: \$17,500

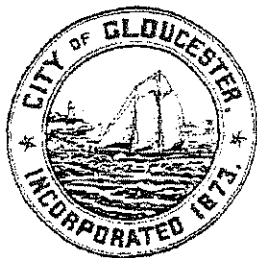
Total Grant Amount \$125,000

Auditor's distribution to managing department: _____

Department

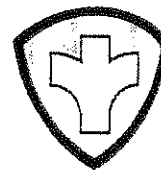
Date sent

Note: A copy of all grant paperwork must be submitted to the Auditor's Office.



CITY OF GLOUCESTER

Health Department
3 Pond Road, City Hall Annex
Gloucester, Massachusetts 01930
PHONE: 978-281-9771 • Fax: 978-281-9729
EMAIL: healthdept@ci.gloucester.ma.us
WEBSITE: www.ci.gloucester.ma.us



Public Health
Prevent. Promote. Protect.

Memorandum

To: Mayor Carolyn Kirk
From: Jack Vondras, Health Director
Date: January 20, 2009
Re: Drug Free Communities Support Program Grant Renewal Process

The City of Gloucester has had a grant titled "Drug Free Communities Support Program" from the federal government for the past five years funding both the Health Gloucester Collaborative (Our local coalition to prevent substance abuse among our city youth and the coordinator position) and the School Assistance Program at the High School that funds the coordinator Amy Kamm/Student Assistance Program Coordinator. We are presently in last year of the grant cycle and we need to renew this grant now. Health and Educational Services (HES) has operated as the fiscal agent for this grant over the past 5 years and has requested that the Gloucester Health Department become the lead on this grant as they no longer have a Director of Prevention Services with HES. Total amount for this grant award would be \$625,000 over five years.

The Health Department has been leading the programmatic component of the grant for the past five years. This grant is for \$125,000 a year for five years and has a 100% match. Even though, this grant was fiscally administered by HES, the City has been responsible for providing all the match requirements during these past 5 years under an agreement that the City had with the Mayor's office.

The match of \$125,000 is mostly made up of local volunteer residents, volunteer professionals from many local non-profits as well as school and city services (i.e., Dr. Wolfe, Dr. Thompson, youth from the Teen Leadership Council at the High School, Parents from our Safe Homes Project, etc.). All volunteer hours have been logged in and calculated to be used as the match requirement. There are more than 200 active volunteers that work with Healthy Gloucester Collaborative. Also, the match can use other off-sets from other grants that the city receives like the United Way that funds a Student Assistant Program at the Middle School.

The due date on this renewal grant is March 20th, 2009. I am available to answer questions from the City Council. Thank you in advance.

Cc: Joe Rosa, Chair, Board of Health
Jim Duggan, Chief Administrative Officer to the Mayor



CITY OF GLOUCESTER

Health Department
3 Pond Road, City Hall Annex
Gloucester, Massachusetts 01930
PHONE: 978-281-9771 · Fax: 978-281-9729
EMAIL: healthdept@ci.gloucester.ma.us
WEBSITE: www.ci.gloucester.ma.us



Public Health
Prevent. Promote. Protect.

Memorandum

To: Mayor Carolyn Kirk
From: Jack Vondras, Health Director
Date: January 13, 2009
Re: Medical Reserve Corps (MRC) Capacity Building Award

RECEIVED

JAN 15 2009

Mayor's Office

The Health Department has received a grant for \$5,000 for Medical Reserve Corps (MRC) Capacity Building from the National Association of city/County Health Officers (NACCHO). These funds will be added to the previous MRC funds that the city has received to continue to train and credential a volunteer Medical Reserve Corps for Emergency Preparedness. There are no matching funds required for these funds.

I will be available to answer questions from the City Council. Thank you in advance.

Cc: Joe Rosa, Chair, Board of Health
Jim Duggan, Chief Administrative Officer

City of Gloucester
Grant Application and Check list

Granting Authority: State _____ Federal _____ Other X

Name of Grant

National Association of City/County Health Officers (NACCHO) Grant

Department Applying for Grant: Health Department

Agency-Federal or State application is requested from: Non Applicable

Object of the application: Capacity building of a volunteer Medical Reserve Core (MRC)

Any match requirements: None

Mayor's approval to proceed: _____

Signature

Date

City Council's referral to Budget & Finance Standing Committee: _____

Vote

Date

Budget & Finance Standing Committee: _____

Positive or Negative recommendation

Date

City Council's Approval or Rejection: _____

Vote

Date

City Clerk's Certification of Vote to City Auditor: _____

Certification

Date

City Auditor:

Assignment of account title and value of grant _____

Title

Amount

Grant Budget by line item account:

Total Grant Amount \$5,000

Sub Contract Services \$3,000

Training/Drilling Expenditures \$1,000

Supplies \$1,000

Auditor's distribution to managing department: _____

Department

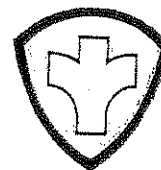
Date sent

Note: A copy of all grant paperwork must be submitted to the Auditor's Office.



CITY OF GLOUCESTER

Health Department
3 Pond Road, City Hall Annex
Gloucester, Massachusetts 01930
PHONE: 978-281-9771 · Fax: 978-281-9729
EMAIL: healthdept@ci.gloucester.ma.us
WEBSITE: www.ci.gloucester.ma.us



Public Health
Prevent. Promote. Protect.

Memorandum

To: Mayor Carolyn Kirk
From: Jack Vondras, Health Director
Date: December 27, 2008
Re: Underage Drinking Prevention Strategies Research Grant

The Health Department is submitting a grant application for \$10,000 for Underage Drinking Prevention Strategies Research from the Community Health Network of the North Shore (CHNA).

These funds are to be used to administer the Search Institute's *Profiles of Student Life: Attitudes and Behaviors Survey* to approximately 1400 Gloucester youth attending grades 8 through 12 in the Gloucester Public Schools. Focus groups will also be formed. The Search Institute's Attitudes and Behaviors survey is a standardized survey instrument, has been evaluated positively for consistency, and has been used in hundreds of schools across the country. The overarching goal is to find ways to significantly reduce binge drinking and other substance abusive behaviors among Gloucester's adolescents. We are seeking funding to pay for the survey instrument and related protocols and for consulting time.

I will be available to answer questions from the City Council. Thank you in advance.

Cc: Joe Rosa, Chair, Board of Health
Jim Duggan, Administrative Assistant to the Mayor

City of Gloucester
Grant Application and Check list

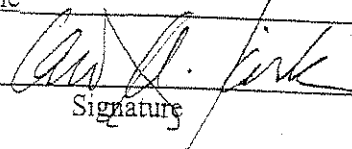
Granting Authority: State _____ Federal _____ Other X
Name of Grant: Underage Drinking Prevention Strategies Research

Department Applying for Grant: CHNA (Community Health Network of the North Shore)

Agency-Federal or State application is requested from: Local application to CHNA

Object of the application: Underage Drinking Prevention Strategies Research

Any match requirements: None

Mayor's approval to proceed:  1/8/09
Signature Date

City Council's referral to Budget & Finance Standing Committee: _____
Vote Date

Budget & Finance Standing Committee: _____
Positive or Negative recommendation Date

City Council's Approval or Rejection: _____
Vote Date

City Clerk's Certification of Vote to City Auditor: _____
Certification Date

City Auditor:

Assignment of account title and value of grant
Title Amount

Grant Budget by line item account:

Purchase 1,700 surveys:	\$3,000
Sub Contract Services:	\$5,700
Printing reports:	\$1,300
Total Grant Amount	\$10,000

Auditor's distribution to managing department: _____
Department Date sent

Note: A copy of all grant paperwork must be submitted to the Auditor's Office.



CITY OF GLOUCESTER 2008 CITY COUNCIL ORDER

ORDER: #CC2008-048
COUNCILLOR: Bruce Tobey

DATE RECEIVED BY COUNCIL: 11/18/08
REFERRED TO:
FOR COUNCIL VOTE: 12/02/08

Ordered, that the City begin a program in Fiscal Year 2009 of issuing water/sewer bills, on a monthly basis.

Councillor Bruce Tobey

CITY OF GLOUCESTER AUDITOR'S OFFICE

January 16, 2009

RECEIVED

JAN 16 2009

Mayor's Office

TO: CITY COUNCIL

FROM: CITY AUDITOR

RE: CODE OF ORDINANCE CHAPTER 2, ADMINISTRATION, ARTICLE III,
OFFICERS AND EMPLOYEES, DIVISION 6, CITY AUDITOR, S 2-104
p. 161, EFFECTIVE MARCH 1, 1986

cc: MAYOR CAROLYN KIRK

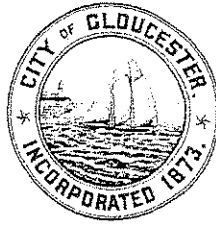
S 2-104 DUTY WHEN APPROPRIATIONS ARE EXHAUSTED
WHENEVER THE APPROPRIATIONS FOR ANY DEPARTMENT FOR ANY OBJECTS HAVE
BEEN EXHAUSTED, THE CITY AUDITOR SHALL COMMUNICATE THE FACT TO THE
MAYOR AND THE CITY COUNCIL, AND ALL EXPENDITURES THEREFORE SHALL CEASE
UNTIL A FURTHER APPLICATION IS DULY MADE.

AS OF THE WEEK ENDING JANUARY 16, 2009. THE FOLLOWING ACCOUNTS HAVE
EXPENDITURES THAT EXCEED THEIR APPROPRIATIONS: CITY DEPARTMENTS

<u>ACCOUNT #</u>	<u>ACCOUNT TITLE</u>	<u>AMOUNT OVER</u>
101000.10.138.51100.51	Purchasing, Sal/Wage Perm	(\$8,927.85.)
101000.10.138.51400.51	Purchasing Sal/Wage Longevity	(\$901.10)
101000.10.152.51970.51	Retirement-Sick Buy Back	(\$16,868.19)
101000.10.220.51420.51	Fire Med Diff EMT	(11,302.72)
101000.10.220.51400.51	Fire Department Sal/wage Longivity	(\$2,494.80)
101000.10.911.51870.51	Pensions, Non- Contrib Pensions	(\$1,946.97)
101000.10.543.57700.57	Verteran's Service Vets Direct Assess	(\$4,391.14)

AGING OF OVERDRAWN ACCOUNTS	CITY OF GLOUCESTER				
ACCOUNT	DESCRIPTION	16-Jan-09	19-Dec-08	21-Nov-08	
101000.10.138.51100.0000.00.000.00.051	Purchasing Sal/Wage Perm	\$ (8,927.85)	\$ (8,927.85)	\$ (4,733.10)	
101000.10.138.51400.0000.00.000.00.051	Purchasing Sal/Wage Longevity	\$ (901.10)	\$ (901.10)	\$ (901.10)	
101000.10.152.51970.0000.00.000.00.051	Retirement - Sick Buy Back	\$ (16,868.19)	\$ (16,868.19)	\$ (16,868.19)	
101000.10.176.51100.0000.00.000.00.051	Zoning Board of Appeals, Sal/Wage Perm			\$ (220.00)	
101000.10.220.51420.0000.00.000.00.051	Fire Med Diff EMT	\$ (11,302.72)	\$ (11,302.72)		
101000.10.220.51400.0000.00.000.00.051	Fire Dept Sal/Wage Longevity	\$ (2,494.80)	\$ (2,494.80)		
101000.10.211.51570.0000.00.000.00.051	Police Uniform Workers' comp payroll			\$ (946.54)	
101000.10.220.51400.0000.00.000.00.051	Fire Dept Sal/Wage Longevity			\$ (1,394.80)	
101000.10.510.51100.0000.00.000.00.051	BOH Perm Sal/Wage		\$ (702.28)		
101000.10.911.51870.0000.00.000.00.051	Pensions, Non Contrib Pensions	\$ (1,946.97)	\$ (1,946.97)	\$ (1,946.97)	
101000.10.543.57700.0000.00.000.00.057	Veteran's Service Vets Direct Assess	\$ (4,391.14)			

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CITY OF GLOUCESTER
OFFICE OF THE MAYOR

MEMORANDUM

TO: Bruce Tobey, City Council President
Members of City Council

FR: Carolyn Kirk, Mayor

RE: FY08 Audited Financial Statements

DT: January 22, 2009

Enclosed in this week's Mayor's Report are the audited financial statements for the fiscal year ended June 30, 2008. The Administration's deadline date of December 31st to have the audit report completed has been met and we are all very happy to finally be caught up and dealing with just one fiscal year's financial records rather than three.

The audited financial statements contain a great deal of important financial data and information. As you know the Council B&F will be receiving its briefing from the independent auditor, however, I would like to also highlight some areas for your information:

Financial Statements:

- You'll recall for FY07 the city was off in its reconciliation of the books by over \$1million and had to bring in outside accountants to reconstruct the fiscal year. The year prior (FY06), the city wrote off over \$100,000 due to an inability to reconcile. I am pleased to report that this year, the FY08 books have been successfully reconciled and there are no write-offs.
- Page 38 – General Fund Variance with Final Budget – For FY08, the financials show a positive variance of \$344,964. Last year, the financials showed a negative variance of \$1,034,482. This represents a turnaround of \$1,379,446 million – a very significant achievement.
- Page 11 – Enterprise Funds (Business – Type Activities) all showed positive results. The unrestricted net assets in the Waterways, Sewer and Water Funds all increased. The Sewer Enterprise Fund had unrestricted net assets of negative \$424,035 at June 30, 2007 and positive \$598,729 at June 30, 2008 representing a turnaround of over \$1million.

- Pages 20 & 21 – Fund Balance Deficits in existence at June 30, 2008 are being addressed during this fiscal year. The largest deficit exists in relation to the Title V Septic Loan program which is considered a capital project fund. The CFO, with the assistance of the new Fiscal Analyst, has reconciled this project from its starting point (1999) to current date. A full accounting was necessary to determine why the deficit was created. We anticipate this being resolved shortly. Additional emphasis is required to make sure that deficits are not allowed to occur in any funds in the future. Effort is already underway to rectify the deficits shown in all funds.

Note that the deficit positions carried in these funds over the past few years has consistently hurt the city's free cash position.

- Page 22 – Uninsured and uncollateralized deposits at June 30, 2008 totaled \$18,778,037. The CFO has already taken steps to reduce the "exposure to risk" and will be providing an update shortly regarding the steps that have been and will continue to be taken regarding this matter. An investment policy is being worked on now.
- Debt – The City has over \$44M in outstanding short-term debt and over \$91M in outstanding long-term debt as of June 30, 2008. Of those totals, \$9M will be paid via the use of Massachusetts Water Pollution Abatement Trust subsidies, \$16M will come from betterment assessments and \$2.5M will be paid for by other special assessments.

Management Letter:

- The City still has a number of internal control weaknesses that it needs to address specifically dealing with reconciliation processes and procedures. While we have made some improvements there is still work to be done. I am very confident in the staff of the Treasurer's and City Auditor's departments. The Finance Team continues to meet weekly to discuss and implement strategies to improve the internal control policies and procedures of the City.

To summarize, strengthening the financial condition of the City of Gloucester will continue to remain as one of my highest priorities and I look forward to continuing the good work that the City Council and the Administration are doing together in this regard.

Giusti, Hingston and Company

Certified Public Accountants

36 Jackman Street, Unit One

Georgetown, MA 01833

Tel: 978-352-7470 Fax: 978-352-8812

Email: GiustiHingstonCo@aol.com

December 29, 2008

Honorable Mayor Carolyn Kirk
and City Council
City Hall
Dale Avenue
Gloucester, MA 01930

In planning and performing our audit of the financial statements of the City of Gloucester, Massachusetts as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Gloucester, Massachusetts internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Gloucester, Massachusetts internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Gloucester, Massachusetts internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City of Gloucester, Massachusetts ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Gloucester, Massachusetts financial statements that is more than inconsequential will not be prevented or detected by the City of Gloucester, Massachusetts internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Gloucester, Massachusetts internal control. We believe the City has material weaknesses relating to Systems of Internal Control, Capital Project Funds and Enterprise Capital Project Funds and Internal Controls over Financial Reporting.

Systems of Internal Control

The internal control procedures relating to cash, debt and accounts receivable improved during fiscal year 2008. However, the reconciling procedures performed still left unresolved variances between the general ledger and Treasurer/Collector's detail information for accounts receivable. There were, also, two bank accounts that were not properly reconciled to their respective bank statements. In addition, most of the reconciling procedures (to the general ledger) were performed on a consulting basis and have not yet been performed by the City's staff.

Our testing disclosed that the classification codes for some of the revenue accounts need to be corrected. Classification codes are established in the Collectors Office and tell the revenues where to post in the general ledger. There is, also, an unresolved issue regarding how the accounting system is handling overpayments. Both of these problems need to be corrected before the accounts receivable can be properly reconciled.

Performing timely reconciling procedures for the City's major assets and liabilities is extremely important in order to safeguard the City's assets and to properly monitor the City's liabilities. Strong reconciling procedures also provide assurance that the City has accurate financial data in order to make sound financial decisions.

We recommend that the City place a high priority on rebuilding its systems of internal control.

Capital Project Funds and Enterprise Capital Project Funds

Borrowings

The City votes to approve loan authorizations to fund projects that will benefit the taxpayer over a long period of time. The votes provide the City with the authority to borrow (short term and/or long term) to provide funding for the projects. Failure to borrow for projects in a timely manner can negatively impact the City's cash flow. Also, the City's free cash position can be adversely effected because the formula utilized (by the Department of Revenue) to calculate the City's free cash position subtracts capital project fund balance deficits resulting from project expenditures that do not have offsetting borrowings (short or long term).

As of June 30, 2008, the City had several capital project accounts (both general and enterprise related) with significant deficit balances that did not have a related short term debt instrument.

We recommend that the Treasurer and the City Auditor review the balances in the capital projects funds, particularly near year end. Debt instruments should be issued for all projects in a deficit cash flow position. In addition, Project Managers should make the Treasurer aware of cash flow requirements throughout the fiscal year.

Budgets

Capital project funds derive their budgets from the loan authorizations approved for the related project. There are two methods for entering budget amounts in the subsidiary expenditure system. One method is to enter a budget amount any time a new borrowing occurs (i.e. new money). This method allows the City to be sure that expenditures have not exceeded the related borrowings. It, also, provides a mechanism to reserve unspent proceeds from borrowing (especially in the enterprise funds). However, it does not provide a good budgeting tool for large long term projects. Another method is to enter the loan authorizations as the budgeted amount. Although this method provides a good budgeting tool, there is a possibility that expenditures made will exceed what has been borrowed. The City could review a balance sheet account prior to approving expenditures in order to avoid spending in excess of what has been borrowed. However, typically only the budgets are reviewed prior to approving bills for payment. Additionally, this method does not provide the ability to determine unexpended proceeds from borrowings unless each capital project is in its own fund.

During fiscal year 2008, the budgets in the capital project funds were not updated for new borrowings. As a result, the ability to verify available funds prior to paying bills was diminished. The inability to verify whether funds are available prior to paying bills can (and did) contribute to the deficits in the capital

projects. Also, the City, could not determine the unexpended proceeds from borrowings related to the enterprise funds. It is necessary to determine and reserve the unspent proceeds in order to have the enterprise fund free cash certified.

We recommend that the City review the enterprise fund capital projects for 2009. Budget amounts should be increased for new borrowings. The unspent proceeds (i.e. budget balances) should be reserved at June 30, 2009.

Internal Controls over Financial Reporting

Recently, new standards were adopted by the American Institute of Certified Public Accountants (AICPA) that will affect what we are currently required to report to you and the manner in which we conduct our audits in the future. Although some of the changes relate to terminology (i.e. a reportable condition is now a significant deficiency), the new standards lower the threshold for what is considered a deficiency. What may not have been reported as a finding in the past could be considered a significant deficiency in the future.

The new standards place a heavy emphasis on management's responsibility over financial reporting. The standards require us to report a significant deficiency when the person within the organization "responsible for the accounting and reporting function lacks the skills and knowledge to apply generally accepted accounting principles in recording the entity's financial transactions or preparing its financial statements" (including notes to the financial statements). The City Auditor is capable of properly recording the City's transactions. However, financial statement preparation has typically been outside of the job responsibilities of most City Auditors. In most governments, (including the City of Gloucester, Massachusetts) the individual responsible for the entity's financial statements understands the financial statements and notes when they are explained. However, few small organizations have an individual who stays current with changes in generally accepted accounting principles and statements issued by the Governmental Accounting Standards Board (GASB). This has typically been considered the "auditor's job". However, since the financial statements are the responsibility of management (i.e. we can only **recommend** audit adjustments) and the opinion letter is our responsibility, it is reasonable that the AICPA believes that someone within every organization should be well versed in generally accepted accounting principles and the preparation of financial statements. The standards do allow entities to use a qualified outside party (other than the audit firm) to review the financial statements prepared by the auditor.

We recommend that the City consider additional staff training relating to preparation of the financial statements.

As is the case with all internal control decisions, management must make assessments of the cost/benefits related to implementing new systems and procedures.

We consider the following to be control deficiencies or other matters that we want to communicate to you.

Unclaimed Checks

The vendor and payroll accounts had outstanding checks dating back several years (i.e. 2005 – vendor and 2002 – payroll). The old checks on the list are "stale" and should not be cashed by the respective banks.

We recommend that the City establish a policy relating to unclaimed checks. Annually, the Treasurer should prepare a list of checks that have been outstanding for more than one year. New requirements relating to the notification of the check owner (less than \$100 – mail notice to last known address, more than \$100 – mail notice and publish in a newspaper of general circulation) should be followed. A copy of

the list should be forwarded to the City Auditor and the appropriate journal entry should be made. The Treasurer should remove those checks from the outstanding list and transfer the related cash out of the vendor/payroll accounts. Also, any amount carried in the "Unclaimed Checks" account for one year should be closed to the unreserved fund balance account in the City's general fund.

Funding of Betterment Related Debt

The City has several phases relating to betterment projects. The debt (principle and interest) relating to projects are paid from betterment revenues and from taxation. The percentage split (betterment revenues vs. taxation) is not the same for each phase and there is not any formal documentation that stipulates exactly what the splits should be.

We recommend that the City prepare formal documentation regarding the funding percentages (betterment revenues vs. taxation) for all phases of the betterment projects. The documentation will be useful in the budget process, especially if there are changes in key financial position.

Lease Payments

We noted that lease payments (\$59,599) relating to police cruisers were moved to a capital project account in the sewer fund. Documentation supporting the transfer indicated that the capital project account was being supported by general long term debt. However, since the capital project account is in the sewer fund, it appears that the debt service will be supported by sewer rates.

We recommend that the City verify that capital project accounts are funded by general long term debt prior to moving general fund expenditures into the account. Also, the expenditures moved must be within the scope of the capital project loan authorization.

Fund Balance Accounts

When the chart of accounts was established for the new accounting system, department and entity numbers were included in the undesignated fund balance accounts in the special revenue funds, capital project funds, and trust funds. However, as part of the year end process the accounting system automatically closes all revenues and expenditures to an undesignated fund balance account (in each fund) without department or entity numbers. As a result, some funds have three different undesignated fund balance accounts with balances in them. In order to determine the fund balance at year end, the three accounts must be added together.

In order to make reviewing the City's trial balance less complex, we recommend that the City make journal entries that will eliminate all but one undesignated fund balance account per fund (most likely the account with an entity code of 10 and a department code of 000).

Capital Assets

The City Auditor has a spreadsheet listing of all the City's capital assets. The spreadsheet has a significant amount of detail, including asset type (equipment, vehicle, etc...), cost, useful life, depreciation to date and the department responsible for the asset. The spreadsheet can be filtered by department in order to provide each department head with a listing of his/her department's assets.

The City is required to annually update the capital asset spreadsheet for acquisitions, dispositions and the current year's depreciation. In order to accommodate this process, we recommend that the City Auditor provide each department head with a list of their assets. The department head should review the asset list and update it for new assets acquired and assets which are no longer in service (i.e. disposed of or retired). Each department head should sign the updated asset list indicating his/her review and approval. The

updated asset list along with information relating to trade-ins should be sent to the City Auditor. The City Auditor should update the capital asset spreadsheet to reflect any changes in the City's capital assets.

These procedures, along with the City Auditor's review of the activity in the City's capital outlay and capital project funds will provide for more accurate information in the City's General Fixed Asset Group of Accounts.

Cash Deposits and Investments

The Treasurer often has a considerable amount of cash to invest. Although somewhat limited by statute, the Treasurer still must weigh risk versus yield. The Federal Deposit Insurance Company (FDIC) insures cash deposits and certificates of deposits in banks up to \$250,000 (the \$250,000 limit was recently increased from \$100,000. The legislation authorizing the increase in insurance coverage makes the change effective October 3, 2008 through December 31, 2009). Certain depositories have purchased other insurances, which provide additional coverage of deposits. Insurance coverage on deposits at the Massachusetts Municipal Depository Trust varies from day to day and is not easily determinable. Throughout the year, a significant portion of the Treasurer's funds can be uninsured and uncollateralized.

During difficult times, it is especially important that the Treasurer make deposits in sound financial institutions. Quarterly reports (i.e. Veribanc Report) are available that assess and rate the strength of various banks based on a number of financial factors. We recommend that the Treasurer utilize a quarterly bank rating report and document the ratings of the banks in which the City invests its cash. The Treasurer should keep the quarterly documentation on file.

Now is also a good time for you to revisit or establish an investment policy. The policy should include a minimum rating a bank must have in order for the Treasurer to invest in it. The policy should also consider the minimum ratings (i.e. Moody's) that other types of investment vehicles must have in order for the Treasurer to purchase them.

Establishing and abiding by a sound investment policy is an important step in upholding your fiduciary responsibility to the public.

Other Matters – Repeated from Prior Year

Infrastructure Assets

The City implemented Governmental Accounting Standards Board Statement Number 34 (G.A.S.B. 34) during fiscal year 2003. The G.A.S.B. 34 required the City to report capital assets in its financial statements. In order to ease the implementation process, a phase in period of four years was allowed for general infrastructure assets (i.e. streets, sidewalks).

Even though the G.A.S.B. allowed a phase in period, standards required us to issue an adverse opinion on the entity wide financial statements related to the governmental activities because the City does not report its general infrastructure assets. The City does maintain records and report all other general capital assets and all enterprise fund assets.

We recommend that the City hire a consultant to value its infrastructure assets. The assets value and the related accumulated depreciation should be determined as of June 30, 2009, (July 1, 2008 balances would, also, be needed) so that the adverse opinion can be changed during that audit period. Depreciation for fiscal year 2009 should be included in the consultant's report.

Financial Analysis – Sewer Betterment Funds

As the sewer betterment project has grown, the complexity of maintaining the accounting and treasurer's records has grown with it. The sewer betterment project has spanned approximately sixteen years. The projects have been performed in nine different phases and the general ledger includes twelve funds to account for the activities related to the various phases.

The different funds were established for each phase to coincide with the related debt instrument (bond) used to fund the project. It was, also, important to maintain separate funds because the City/Betterment percentage of financial responsibility for the debt was not the same for all phases. Maintaining a separate fund for each phase facilitates financial analysis of the phases.

We believe that is extremely important that the City perform an "annual" financial analysis of each fund. The City should compare each fund's betterment receivable, fund balance and projected committed interest, to the related debt payments due in future years. The analysis should consider when the betterment revenues will be received (i.e. based on the apportionments) and when the principal and interest will be paid (based on the debt amortization schedule).

The purpose of the analysis is to ensure that the anticipated City vs. Betterment payment ratio is accurate, that the timing of the revenues coincides with the debt principal and interest requirements and that (by using the current ratios) betterment revenues will be available throughout the life of the debt.

If it appears that the betterment revenues will not be available in the final years of the debt, the City/Betterment ratio should be adjusted. It would not be in the best financial interest of the City to have a year or two at the end of a debt instrument where the City has to pay 100% of the principal and interest.

Internal Controls over Financial Transactions

The recent standards adopted by the AICPA, also, place a heavy emphasis on management's responsibility for establishing, documenting and periodically reviewing its systems of internal controls over key financial transaction cycles (i.e. payroll, purchase/disbursements, accounts receivables and cash). A goal of the standard is to heighten management's awareness that they are ultimately responsible for their financial statements and systems of internal control and, therefore, must weigh and manage the associated risks. In establishing the controls, management is responsible for assessing the fraud risk related to each cycle. The new standards require us to report a deficiency when an entity has "inadequate documentation of the components of internal control". Even though a system of internal control may be in effect, there should be some form of documentation (i.e. narrative or flow chart) that identifies the key elements of the control procedures. The documentation requirement is a means to ensure that management's intended significant controls are known and can be evaluated during the audit process. Adequate documentation of internal control policies also provides a mechanism to ensure that management's intentions relating to internal control will be available when there is turnover in key financial positions.

We recommend that the City document its internal control procedures relating to the cash, accounts receivable, payroll and purchase/expenditure cycles. The City's management (Mayor and key financial officers) should, also, document its risk assessment of the various cycles (i.e. potential for fraud or material errors). Many of the internal controls are currently in place (signatures required on bills before disbursing funds, warrants must be signed...), so the Mayor's approval of a written description of the existing step by step process and documentation of the risk assessment will be, in most instances, sufficient.

Internal Controls – Reconciling Procedures

Prior to the difficulties that occurred in the conversion process, the City reconciled the Treasurer's cashbook to the Auditor's general ledger on a monthly basis. However, the system of internal control did not include having someone in the Auditor's Office to review the Treasurer's reconciliation of the cash book to the bank statements. As a result, the City Auditor is not certain that the Treasurer's cashbook is supported by balances in financial institutions.

Historically, most municipalities have relied on the procedures performed during the annual audit to verify that the cashbook balances have been properly reconciled to their respective bank accounts. Although, this has been standard operating procedures for a number of years, new auditing standards state that an audit firm cannot be considered a part of an entity's internal control structure.

In order to enhance the City's internal control environment, we recommend that the City Auditor periodically review the Treasurer's bank reconciliations and verify that the cash book is supported by deposits in financial institutions. Bank statements, outstanding check lists and other reconciling items should be reviewed. The City Auditor should initial the Treasurer's bank reconciliation in order to document that a review was made.

Special Revenue Funds – Deficit Balances

The City has several special revenue accounts that were in a deficit position as of June 30, 2008. Some of the deficits were resolved when grant revenues were received after June 30. However, other accounts remained in a deficit position. Deficits in special revenue funds can negatively affect the City's "Free Cash" position (the Department of Revenue does not reduce free cash if grant revenues received shortly after year end eliminate a deficit).

We recommend that the City periodically review the balances in the special revenue funds. The City's goal should be to eliminate all deficit balances (except those caused by yet to be reimbursed grant accounts) by year end.

Withholding Account Deficit

The School Health Insurance Withholding Account was in a deficit position as of June 30, 2007 (\$55,000) and June 30, 2008 (\$63,688). Deficits in withholding accounts negatively affect the City's free cash.

We recommend that the City review the activity in the withholding account to determine the reasons for the deficit.

Trust Funds

During fiscal year 2006, 2007 and 2008, the general ledger included a separate fund for each trust fund. The bank that manages the trust funds provides a quarterly statement that identifies the receipts and disbursements of each trust fund and the ending balance for the quarter. As of June 30, 2006, June 30, 2007 and June 30, 2008, there were significant variances between the bank and the general ledger for the various trust fund accounts.

We recommend that the City review the bank's quarterly report and determine the reasons for the variances. In some instances bank transfers will need to be made out of the trust fund accounts and in other instances journal entries will need to be made to correct the general ledger.

Payroll

As part of our testing related to the City's payroll, we reviewed the four quarterly filings (Form 941). The total of the four quarters (Form 941) should equal the year end information submitted. We could not tie in the quarterly forms to the year end report (fiscal years 2007 and 2008).

We recommend that the City review the procedures utilized to file the 941 forms and the end of year reports.

Student Activity Accounts

Typically, schools have under their control various bank accounts relating to student activity funds (i.e. Class of 2007, Ski Club, etc.). Massachusetts General Laws Chapter 66 of the Acts of 1996 now govern the manner in which student activity accounts should be maintained.

In order to enhance the City's internal control structure and to comply with Massachusetts General Laws, we recommend the following:

- 1.) All student activity bank accounts maintained by the schools should be closed. The funds should be turned over to the Treasurer.
- 2.) The Treasurer should establish one bank account for all student activity funds.
- 3.) The City Auditor should establish one student activity account per school in the general ledger.
- 4.) The School Committee should authorize the Principals to establish a checking account for an amount that will cover expenses until the bank account can be replenished through the normal warrant process. The bank account should act as an imprest account.
- 5.) After funds are disbursed by the Principal, invoices should be submitted to the City Auditor to replenish the Principal's checking account by means of the warrant process.
- 6.) The Principal or his/her designee is responsible for maintaining a subsidiary ledger that details each activity's transactions and account balance (since the City Auditor will have just one control account per school). Maintaining the subsidiary ledgers on an accounting software program would simplify the process.

The new procedures require a considerable amount of planning. Student advisors or others who manage student activity accounts must make the Principal aware of upcoming needs. If a check will be required that is greater than the amount in the Principal's bank account, the normal warrant process can be utilized.

* * * * *

This communication is intended solely for the information and use of management, and those charged with governance, and others within the organization, and is not intended to be and should not be used by anyone other than those specified parties.

City of Gloucester
December 29, 2008
Page 9

After you have had an opportunity to consider our findings and recommendations, we shall be pleased to discuss them further with you. We would like to thank you for the cooperation and courtesy extended to us during the course of the engagement.

Very truly yours,

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants

CITY OF GLOUCESTER, MASSACHUSETTS

Financial Statements

June 30, 2008

(With Accountants' Report Thereon)

36 Jackman St., Unit 1

Giusti, Hingston and Company
Certified Public Accountants
* Georgetown, MA 01833 *

(Tel) 978-352-7470

City of Gloucester, Massachusetts
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INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS - CITY OF
GLOUCESTER

Honorable Mayor Carolyn Kirk
and City Council
City Hall
Dale Avenue
Gloucester, MA 01930

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Gloucester, Massachusetts as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Gloucester, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above include only the primary government of the City of Gloucester, Massachusetts, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government's financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City of Gloucester, Massachusetts, as of June 30, 2008, and changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America (the City's only component unit is the Gloucester Contributory Retirement System).

Management has not recorded certain general infrastructure assets in governmental activities (streets and sidewalks) and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the City of Gloucester, Massachusetts as of June 30, 2008, and the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Gloucester, Massachusetts as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated December 19, 2008 on our consideration of the City of Gloucester, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The City of Gloucester, Massachusetts has elected not to present Management's Discussion and Analysis (M.D.A.) that accounting principles generally accepted in the United States has determined are necessary to supplement, although not required to be part of, the basic financial statements. The M.D.A. election was made because infrastructure assets have not been reported and any analysis of the entity wide financial statements would be incomplete.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City of Gloucester taken as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Giusti, Hingston and Company

Giusti, Hingston and Company

Certified Public Accountants

December 19, 2008

City of Gloucester, Massachusetts
Statement of Net Assets
June 30, 2008
(Continued on Page 4)

	Governmental Activities	Business - Type Activities	Government- Wide Total
Assets			
Current:			
Cash/Investments	\$ 24,110,984	\$ 17,947,441	\$ 42,058,425
Petty Cash	6,400	-	6,400
Accounts Receivable:			
Property Taxes	2,318,549	-	2,318,549
Tax Liens	1,259,366	-	1,259,366
Excises	732,519	226,051	958,570
Departmental	1,085,334	11,255	1,096,589
User Charges	-	1,742,551	1,742,551
Utility Liens	-	441,966	441,966
Intergovernmental	3,484,804	-	3,484,804
Accrued Earnings	57,122	-	57,122
Special Assessments and Committed Interest	138,600	-	138,600
Revolving Loans	759,580	-	759,580
Noncurrent:			
Accounts Receivable:			
Intergovernmental	12,902,188	-	12,902,188
Deferred Property Taxes	156,903	-	156,903
Deferred Special Assessments	18,484,928	-	18,484,928
Capital Assets:			
Assets Not Being Depreciated	17,763,776	4,512,584	22,276,360
Assets Being Depreciated, Net	50,005,246	147,832,410	197,837,656
Total Assets	133,266,299	172,714,258	305,980,557
Liabilities			
Current:			
Warrants Payable	4,284	-	4,284
Refunds Due	36,565	-	36,565
Accrued Salaries Payable	1,985,048	60,571	2,045,619
Employees' Withholding Payable	31,476	-	31,476
Due to Individuals	5,408	-	5,408
Unclaimed Checks	186,830	-	186,830
Incurred But Not Received Health Payable	99,822	-	99,822
Accrued Interest Payable	1,053,508	380,814	1,434,322
Bond Anticipation Notes Payable	8,762,788	35,988,083	44,750,871
Bonds Payable	6,589,604	2,290,293	8,879,897
Other Liabilities	-	30	30
Property Taxes Paid in Advance	864,775	-	864,775
Noncurrent:			
Bonds Payable	59,274,357	23,402,223	82,676,580
Compensated Absences	1,766,935	143,425	1,910,360
Total Liabilities	80,661,400	62,265,439	142,926,839

The Notes to the Financial Statements
are an Integral Part of this Exhibit.

City of Gloucester, Massachusetts
Statement of Net Assets
June 30, 2008
(Continued from Page 3)

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	Government- Wide <u>Total</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	52,167,940	107,127,369	159,295,309
Restricted for:			
Special Revenue	9,395,387	-	9,395,387
Perpetual Funds:			
Expendable	146,553	-	146,553
Nonexpendable	720,384	-	720,384
Unrestricted	(9,825,365)	3,321,450	(6,503,915)
Total Net Assets	<u>\$ 52,604,899</u>	<u>\$ 110,448,819</u>	<u>\$ 163,053,718</u>

City of Gloucester, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2008

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 15,268,743	\$ 530,674	\$ 1,468,164	\$ -	\$ (13,269,905)	\$ -	\$ (13,269,905)
Public Safety	11,465,316	2,169,029	471,248	-	(8,825,039)	-	(8,825,039)
Education	52,925,369	1,574,229	17,144,973	1,434,718	(32,771,449)	-	(32,771,449)
Highways and Public Works	6,519,837	3,034,161	621,527	1,400,618	(1,463,531)	-	(1,463,531)
Human Services	1,615,431	388,592	632,908	-	(593,931)	-	(593,931)
Culture and Recreation	904,935	11,227	57,086	-	(836,622)	-	(836,622)
Debt Service	2,137,776	-	-	-	(2,137,776)	-	(2,137,776)
Total Governmental Activities	90,837,407	7,707,912	20,395,906	2,835,336	(59,898,253)	-	(59,898,253)
Business-Type Activities:							
Waterways	320,260	290,787	-	-	-	(29,473)	(29,473)
Sewer	8,105,616	6,962,430	13,609	-	-	(1,129,577)	(1,129,577)
Water	4,370,629	6,117,354	-	-	-	1,746,725	1,746,725
Total Business-Type Activities	12,796,505	13,370,571	13,609	-	-	587,675	587,675
Total Primary Government	\$ 103,633,912	\$ 21,078,483	\$ 20,409,515	\$ 2,835,336	(59,898,253)	587,675	(59,310,578)
General Revenues:							
Property Taxes					52,584,070	-	52,584,070
Motor Vehicle and Other Excise Taxes					3,159,022	-	3,159,022
Penalties and Interest on Taxes					525,423	-	525,423
Other Taxes, Assessments and in Lieu Payments					46,393	-	46,393
Intergovernmental					6,219,557	-	6,219,557
Interest and Investment Income					441,875	-	441,875
Other Revenue					516,566	-	516,566
Contributions to Permanent Funds					8,500	-	8,500
Special Items:							
Transfer In (Out)					(41,950)	41,950	-
Total General Revenues, Special Items and Transfers					63,459,456	41,950	63,501,406
Change in Net Assets					3,561,203	629,625	4,190,828
Net Assets:							
Beginning of the Year					48,912,218	109,819,194	158,731,412
Prior Period Adjustments					131,478	-	131,478
End of the Year					\$ 52,604,899	\$ 110,448,819	\$ 163,053,718

The Notes to the Financial Statements
are an Integral Part of this Exhibit.

City of Gloucester, Massachusetts
Governmental Funds
Balance Sheet
June 30, 2008
(Continued on Page 7)

	<u>General</u>	<u>Betterment Reserves</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash/Investments	\$ 3,986,456	\$ 6,098,725	\$13,379,445	\$23,464,626
Petty Cash	4,150	-	2,250	6,400
Accounts Receivable:				
Property Taxes	2,318,549	-	-	2,318,549
Liens	1,237,784	21,582	-	1,259,366
Excises	732,519	-	-	732,519
Deferred Property Taxes	156,903	-	-	156,903
Departmental	1,005,734	-	-	1,005,734
Intergovernmental	14,410,797	-	1,976,195	16,386,992
Accrued Earnings on Investments	48,383	-	8,739	57,122
Special Assessments and Committed Interest	-	130,180	8,420	138,600
Deferred Special Assessments	-	15,920,282	2,564,646	18,484,928
Tax Foreclosures	458,722	-	-	458,722
Revolving Loans	-	-	759,580	759,580
Total Assets	<u>\$ 24,359,997</u>	<u>\$ 22,170,769</u>	<u>\$18,699,275</u>	<u>\$65,230,041</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Warrants Payable	\$ 4,284	\$ -	\$ -	\$ 4,284
Refunds Due	36,565	-	-	36,565
Accrued Salaries Payable	1,835,896	-	149,152	1,985,048
Employees' Withholding Payable	30,662	-	814	31,476
Other Liabilities	31,436	-	(26,028)	5,408
Unclaimed Checks	176,156	-	10,674	186,830
Bonds Anticipation Notes Payable	-	-	8,762,788	8,762,788
Deferred Revenue	19,822,391	16,072,044	4,656,251	40,550,686
Deferred Revenue Property Taxes Paid In Advance	864,775	-	-	864,775
Total Liabilities	<u>22,802,165</u>	<u>16,072,044</u>	<u>13,553,651</u>	<u>52,427,860</u>

City of Gloucester, Massachusetts
Governmental Funds
Balance Sheet
June 30, 2008
(Continued from Page 6)

	<u>General</u>	<u>Betterment Reserves</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Equity:				
Fund Balances:				
Reserved for Encumbrances	1,164,905	-	-	1,164,905
Reserved for Debt Service	-	6,098,725	-	6,098,725
Reserved for Perpetual Permanent Funds	-	-	720,384	720,384
Unreserved:				
Designated for:				
Escrow	566	-	-	566
Undesignated, Reported in:				
General Fund	392,361	-	-	392,361
Special Revenue Fund	-	-	6,224,256	6,224,256
Capital Projects Fund	-	-	(1,945,569)	(1,945,569)
Permanent Fund	-	-	146,553	146,553
Total Fund Balances	<u>1,557,832</u>	<u>6,098,725</u>	<u>5,145,624</u>	<u>12,802,181</u>
Total Liabilities and Fund Balances	<u>\$ 24,359,997</u>	<u>\$ 22,170,769</u>	<u>\$18,699,275</u>	<u>\$65,230,041</u>

City of Gloucester, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2008

	<u>General</u>	<u>Betterment Reserves</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>				
Property Taxes	\$ 52,272,295	\$ -	\$ -	\$ 52,272,295
Tax Liens	153,218	-	-	153,218
Excises	3,159,022	-	-	3,159,022
Penalties and Interest	525,423	-	-	525,423
Licenses and Permits	1,101,855	-	-	1,101,855
Intergovernmental	20,186,800	-	6,366,435	26,553,235
Fees and Other Departmental	-	-	149,145	149,145
Charges for Services	3,928,791	2,344,049	2,333,109	8,605,949
Fines and Forfeits	325,400	-	-	325,400
Earnings on Investments	435,506	-	84,138	519,644
In Lieu of Taxes	46,393	-	-	46,393
Contributions	-	-	566,837	566,837
Loan Principal and Interest Repayments	-	-	289,068	289,068
Miscellaneous	629,316	-	228,987	858,303
Total Revenues	<u>82,764,019</u>	<u>2,344,049</u>	<u>10,017,719</u>	<u>95,125,787</u>
<u>Expenditures:</u>				
Current				
General Government	13,308,175	-	2,123,034	15,431,209
Public Safety	11,168,122	-	350,425	11,518,547
Education	41,807,875	-	7,152,721	48,960,596
Intergovernmental	3,463,771	-	-	3,463,771
Highways and Public Works	5,637,336	-	631,978	6,269,314
Human Services	691,181	-	924,250	1,615,431
Culture and Recreation	714,642	-	85,700	800,342
Debt Service	9,452,929	-	-	9,452,929
Total Expenditures	<u>86,244,031</u>	<u>-</u>	<u>11,268,108</u>	<u>97,512,139</u>
Excess of Revenues Over (Under) Expenditures	<u>(3,480,012)</u>	<u>2,344,049</u>	<u>(1,250,389)</u>	<u>(2,386,352)</u>
Other Financing Sources (Uses):				
Operating Transfers In	3,614,364	-	29,000	3,643,364
Operating Transfers (Out)	(35,774)	(2,618,949)	(970,084)	(3,624,807)
Total Other Financing Sources (Uses)	<u>3,578,590</u>	<u>(2,618,949)</u>	<u>(941,084)</u>	<u>18,557</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>98,578</u>	<u>(274,900)</u>	<u>(2,191,473)</u>	<u>(2,367,795)</u>
Fund Balance, Beginning	1,459,975	6,373,625	7,340,227	15,173,827
Prior Period Adjustment	(721)	-	(3,130)	(3,851)
Fund Balance, Ending	<u>\$ 1,557,832</u>	<u>\$ 6,098,725</u>	<u>\$ 5,145,624</u>	<u>\$ 12,802,181</u>

City of Gloucester, Massachusetts
Reconciliation of the Governmental Funds Balance Sheet
Total Fund Balances to the Statement of Net Assets
Fiscal Year Ended June 30, 2008

Total governmental fund balances	\$ 12,802,181
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	67,769,022
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	40,091,964
Internal Service Fund included with Enterprise funds on fund financial statements	626,136
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. Also, accrued interest on bonds is not reported in the governmental funds.	
Bonds Payable	(65,863,961)
Accrued Interest on Bonds	(1,053,508)
Compensated Absences	<u>(1,766,935)</u>
Net assets of governmental activities	<u><u>\$ 52,604,899</u></u>

City of Gloucester, Massachusetts
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Fiscal Year Ended June 30, 2008

Net change in fund balances - total governmental funds	\$ (2,367,795)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(1,121,382)
Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.	(685,227)
The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	6,528,872
Some expenses reported in the Statement of Activities, such as compensated absences and accrued interest, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This amount represents the net change from the prior fiscal year	819,823
The net income of the Internal Service Fund is included with the governmental funds in the in the entity wide statements, but are included with the enterprise funds in the fund financial statements.	<u>386,912</u>
Change in net assets of governmental activities	<u>\$ 3,561,203</u>

City of Gloucester, Massachusetts
Proprietary Funds
Statement of Net Assets
June 30, 2008

	<u>Business - Type Activities</u>				Health Insurance
	<u>Waterways</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Internal</u>
	<u>Enterprise</u>	<u>Enterprise</u>	<u>Enterprise</u>	<u>Enterprise</u>	<u>Service Fund</u>
Assets					
Current:					
Cash and Cash Investments	\$ 503,466	\$ 10,103,585	\$ 7,340,390	\$ 17,947,441	\$ 646,358
Receivables, Net of Allowance for Uncollectibles:					
Excise Tax	226,051	-	-	226,051	-
User Charges	-	962,773	779,778	1,742,551	-
Utility Liens	-	196,141	245,825	441,966	-
Departmental	11,255	-	-	11,255	79,600
Noncurrent:					
Assets Not Being Depreciated	538,482	379,839	3,594,263	4,512,584	-
Assets Being Depreciated, Net	<u>1,977,902</u>	<u>118,762,245</u>	<u>27,092,263</u>	<u>147,832,410</u>	<u>-</u>
Total Assets	<u>3,257,156</u>	<u>130,404,583</u>	<u>39,052,519</u>	<u>172,714,258</u>	<u>725,958</u>
Liabilities					
Current:					
Accrued Wages Payable	4,066	29,989	26,516	60,571	-
Incurred But Not Received Health Payable	-	-	-	-	99,822
Accrued Interest Payable	-	90,415	290,399	380,814	-
Bond Anticipation Notes Payable	-	29,360,338	6,627,745	35,988,083	-
Bonds Payable	-	818,804	1,471,489	2,290,293	-
Other Liabilities	-	18	12	30	-
Noncurrent:					
Compensated Absences	20,106	46,515	76,804	143,425	-
Bonds Payable	<u>-</u>	<u>5,246,938</u>	<u>18,155,285</u>	<u>23,402,223</u>	<u>-</u>
Total Liabilities	<u>24,172</u>	<u>35,593,017</u>	<u>26,648,250</u>	<u>62,265,439</u>	<u>99,822</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	2,516,384	94,212,837	10,398,148	107,127,369	-
Restricted for:					
Unrestricted	<u>716,600</u>	<u>598,729</u>	<u>2,006,121</u>	<u>3,321,450</u>	<u>626,136</u>
Total Net Assets	<u>\$ 3,232,984</u>	<u>\$ 94,811,566</u>	<u>\$ 12,404,269</u>	<u>\$ 110,448,819</u>	<u>\$ 626,136</u>

The Notes to the Financial Statements
are an Integral Part of this Exhibit.

City of Gloucester, Massachusetts
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Fiscal Year Ended June 30, 2008

	<u>Business - Type Activities</u>				Health Insurance Internal Service Fund
	<u>Waterways Fund</u>	<u>Sewer Fund</u>	<u>Water Enterprise</u>	<u>Total Enterprise</u>	
Operating Revenues:					
Charges for Services	\$ 163,030	\$ 6,895,703	\$ 6,054,341	\$ 13,113,074	\$ -
Excises	84,969	-	-	84,969	-
Other Operating	42,788	66,727	63,013	172,528	-
Contributions	-	-	-	-	1,786,360
Total Operating Revenues	290,787	6,962,430	6,117,354	13,370,571	1,786,360
Operating Expenditures:					
Personal Services	164,307	1,089,116	1,553,310	2,806,733	-
Nonpersonal Services	69,330	3,163,683	1,510,694	4,743,707	1,338,941
Depreciation	86,623	2,867,093	726,248	3,679,964	-
Total Operating Expenditures	320,260	7,119,892	3,790,252	11,230,404	1,338,941
Operating Income	(29,473)	(157,462)	2,327,102	2,140,167	447,419
Nonoperating Revenues (Expenses):					
Earnings on Investments	-	13,609	-	13,609	-
Interest on Debt	-	(985,724)	(580,377)	(1,566,101)	-
Total Nonoperating Revenues (Expenses)	-	(972,115)	(580,377)	(1,552,492)	-
Income Before Contributions and Transfers	(29,473)	(1,129,577)	1,746,725	587,675	447,419
Transfers In	345	37,778	3,827	41,950	-
Transfers Out	-	-	-	-	(60,507)
Total Capital Contributions and Transfers	345	37,778	3,827	41,950	(60,507)
Change in Net Assets	(29,128)	(1,091,799)	1,750,552	629,625	386,912
Total Net Assets July 1, 2007	3,262,112	95,903,365	10,653,717	109,819,194	239,224
Total Net Assets June 30, 2008	\$ 3,232,984	\$ 94,811,566	\$ 12,404,269	\$ 110,448,819	\$ 626,136

City of Gloucester, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2008

	Waterways Fund	Sewer Fund	Water Fund	Total
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 297,040	\$ 6,831,206	\$ 6,239,664	\$ 13,367,910
Payments to Employees	(164,379)	(1,072,576)	(1,550,111)	(2,787,066)
Payments to Vendors	(72,592)	(3,195,848)	(1,649,935)	(4,918,375)
Net Cash Flows Provided (Used) by Operating Activities	60,069	2,562,782	3,039,618	5,662,469
Cash Flows from Non Capital Related Financing Activities:				
Net Transfers to/from Other Funds	345	37,778	3,827	41,950
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	345	37,778	3,827	41,950
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	-	(5,046,461)	(996,158)	(6,042,619)
Proceeds from Bond Anticipation Notes	-	29,360,338	6,627,745	35,988,083
Payments on Bond Anticipation Notes	-	(20,185,000)	(450,000)	(20,635,000)
Principal Payments on Bonds and Notes	-	(813,645)	(1,473,806)	(2,287,451)
Interest Expense	-	(1,069,311)	(828,689)	(1,898,000)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	-	2,245,921	2,879,092	5,125,013
Cash Flows from Investing Activities:				
Earnings on Investments	-	13,609	-	13,609
Net Cash Flows Provided (Used) by Investing Activities	-	13,609	-	13,609
Net Increase (Decrease) in Cash and Cash Equivalents	60,414	4,860,090	5,922,537	10,843,041
Cash and Cash Equivalents, July 1, 2007	443,052	5,195,274	1,465,353	7,103,679
Prior Period Adjustment - Move Debt Proceeds from Water to Sewer Fund	-	48,221	(47,500)	721
Cash and Cash Equivalents, June 30, 2008	\$ 503,466	\$ 10,103,585	\$ 7,340,390	\$ 17,947,441
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ (29,473)	\$ (157,462)	\$ 2,327,102	\$ 2,140,167
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	86,623	2,867,093	726,248	3,679,964
(Increase) Decrease in Assets:				
Accounts Receivable - Customer	6,253	(131,224)	122,310	(2,661)
Increase (Decrease) in Liabilities:				
Warrants and Accounts Payable	(3,334)	(15,625)	(136,042)	(155,001)
Net Cash Provided by Operating Activities	\$ 60,069	\$ 2,562,782	\$ 3,039,618	\$ 5,662,469

City of Gloucester, Massachusetts
Fiduciary Funds
Statement of Net Assets
June 30, 2008

	Private-Purpose <u>Trust</u>
Assets	
Cash and Cash Investments	\$ 729,200
Accrued Earnings Receivable	4,182
Total Assets	<u>733,382</u>
Liabilities	<u>-</u>
Total Liabilities	<u>-</u>
Net Assets	
Held in Trust	<u>\$ 733,382</u>

City of Gloucester, Massachusetts
Fiduciary Funds
Statement of Changes in Net Assets
Fiscal Year Ended June 30, 2008

	Private-Purpose Trust
Additions:	
Earnings on Investments	\$ 26,481
Total Additions	<u>26,481</u>
Deductions:	
Trust Distributions	<u>770</u>
Change in Net Assets	<u>25,711</u>
Net Assets:	
Beginning of the Year	<u>704,541</u>
Prior Period Adjustment	<u>3,130</u>
Fund Balance, Beginning as Restated	<u>707,671</u>
Ending of the Year	<u><u>\$ 733,382</u></u>

City of Gloucester, Massachusetts
Notes to the Financial Statements
June 30, 2008

I. Summary of Significant Accounting Policies

The accounting policies of the City of Gloucester, Massachusetts, as reflected in the accompanying financial statements for the year ended June 30, 2008, conform to accounting principles generally accepted in the United States of America for local government units, except as indicated hereafter. In accounting and reporting on its enterprise fund, the City has elected to apply all Governmental Accounting Standards Board ("GASB") pronouncements as well as Financial Accounting Standards Board pronouncements issued prior to November 30, 1989, unless those pronouncements contradict GASB pronouncements, in which case, GASB prevails.

The more significant accounting policies of the City are summarized below.

(A) Reporting Entity

The City's reporting entity consists of all organizations for which the City exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

The City has elected to exclude its only component unit (the Gloucester Contributory Retirement System). As a result, the accompanying financial statements are for the primary government.

(B) Government-wide and fund financial statements

The **government-wide financial statements** (i.e., the **statement of net assets** and the **statement of activities**) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

(C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. These revenues are recognized when they become measurable and available as net current assets. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary sources of revenue considered susceptible to accrual consist principally of real estate and personal property taxes, motor vehicle excise tax and amounts due under grants. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year end. Revenues not considered susceptible to accrual are recognized when received.

Water and sewer charges as presented are considered revenue when they are committed for collection. Recognition has not been considered for unbilled usage in the government wide and the fund financial statements.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated vacation, accumulated sick pay, and other employee amounts which are not to be liquidated from expendable and available resources; and (2) debt service expenditures which are recognized when due.

Agency fund assets and liabilities are accounted for on the modified accrual basis of accounting.

The City reports the following major governmental funds:

General Fund – This is the City's general operating fund. It accounts for all financial resources of the general government except those required to be accounting for in another fund.

Betterment Reserve Fund – This fund captures the revenues for all phases of the sewer betterments. The revenues are transferred to the general fund to help meet the City's betterment related debt obligation.

The City reports the following major proprietary funds:

Water Fund – This fund is used to account for the activities related to the water distribution system.

Sewer Fund – This fund is used to account for sewer related activities.

Waterways Fund – This fund is used to account for the activities associated with the City's harbor.

(D) Assets, Liabilities and Net Assets or Equity

i Deposits and Investments

The City's cash and cash equivalents are considered to be demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

State and local statutes place certain limitations on the nature of deposits and investments available to the City. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain prescribed levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of not more than 90 days from the date of purchase, and units in the Massachusetts Municipal Depository Trust ("MMDT").

Also, certain governmental funds (primarily trust funds) have broader investment powers which allow investments in common stocks, corporate bonds and other types of investments.

ii Property Taxes

The City's fiscal year runs from July 1 to June 30. Taxes are levied to the owner of record on the preceding January 1. The City bills property taxes on a quarterly basis. Quarterly payments are due on August 1, November 1, February 1 and May 1. Property taxes attach as enforceable liens on property as of July 1 of the next fiscal year.

The City is permitted under state law to levy property taxes up to 2.5% of the full and fair cash value of the property. In addition, the law limits the amount by which the total property tax assessment can be increased to 2.5% of the preceding year's assessment plus any new growth.

iii Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The City has not included the infrastructure assets (roads and sidewalks) related to the governmental activities.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Equipment	5-15
Improvements	20-40
Infrastructure	40-50
Vehicles	5-15

iv Compensated Absences

The liabilities for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated annual vacation and sick leave benefits. The liabilities have been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

v Long-Term Obligations

In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of a bond issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

vi Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

In the fund financial statements fund equity is comprised of the following:

Fund Balances

(a) Reserved for Encumbrances

Appropriations for certain projects and specific items not fully expended at year end are carried forward as reserved for encumbrances to the next year. At year end, reserved for encumbrances is reported as a component of fund balance.

(b) Reserved for Debt Service

This account represents funds available to pay a percentage of betterment related debt.

(c) Reserved for Perpetual Permanent Funds

This account represents the principal portion of cash invested in the nonexpendable trust funds. Only the income earned from investing these funds can be expended for purposes specified in the trust instrument.

(d) Fund Balance Deficits

The City had various fund balance deficits as of June 30, 2008. The capital project deficits are netted with their related outstanding Bond Anticipation Notes. The fund balance accounts are identified below:

Government Activities

<u>Non Major</u>		
<u>Special Revenue</u>		
<u>Fund</u>		
<u>Number</u>	<u>Account</u>	<u>Balance</u>
283001	Athletic Revolving	\$112,873
223000	School Lunch	99,913
283012	Preschool	43,534
283003	School Restitution	24,480
293007	Summer Program	21,386
283017	Beach Concessions	18,660
291079	FY08 - SAC - Harbor Transportation Plan	15,965
285027	Community Learning	14,823
282022	Emergency Kids in Crisis	13,893
281017	Clough	13,710
285014	Sawyer Music	9,655
292026	07 Bulletproof Vest Partnership - Federal Share	7,932
282016	Occupational Ed-Vocational Skills	7,120
295035	BOH - N. Shore/Cape Ann Comm Health Care Net	4,840
291078	FY08 SAC - Harbor Coordinator -	4,253
282003	Title II Improved Education Quality	4,203
281032	00 IEP	4,200
283016	Advertising	3,000
295018	Donation - Veterans	2,931
292027	FY07-08 Organized Crime Drug Enforcement Task Force	2,748
295010	Restitution Police	2,115
295002	Donations - Library	2,011
291067	07 - MA DEP Water Loss Prevention	1,564
291039	Fund Balance Dep Water Access	1,398
295017	Police SH Drug Enforcement	1,136
Total		<u>\$438,343</u>
<u>Capital Projects Fund</u>		
300023	Board of Health - Water Abatement	\$1,253,866
330002	CIP 00 Gloucester Sewer	497,836
300066	CIP 08 Reprogram Modular Classrooms	401,192
300067	CIP 08 Reprogram GHS Water Tank	36,620
300068	CIP 08 Reprogram Boiler	36,500
300024	CIP 04 Board of Health - Water Abatement	29,023
300004	CIP 03 Municipal Building Renovations	17,919
300002	MIS Software	16,039
300005	CIP 02 City Hall Windows	11,101
300071	CIP 08 Beach Rakes	9,592
300045	Gloucester High School Litigation	2,155
Total		<u>\$2,311,843</u>

<u>Enterprise Fund Capital Projects</u>		
Sewer	CIP 06 WPC Fac Emer Clar & Clor Odor (2,000,000)	\$545,290
Sewer	CIP01 Sewer Lower Essex Ave Upgrade	91,263
Sewer	CIP 04 Little River (600,000)	59,774
Sewer	CIP 04 Sewer proj lower Essex/Gibbs Hill (570,000)	46,061
Sewer	CIP 04 CSO Wash Basin	44,020
Sewer	CIP 03 Essex Sewer	32,225
Sewer	CIP 04 DPW Asset Mgt Program	6,586
Sewer	CIP Sewer GIS Enhancements	1,040
Water	CIP 03 Water Lines Magnolia	159,759
Water	CIP02 Klondike Res Design	38,032
Water	CIP 01 Little River	2,469
Total		<u>\$1,026,519</u>

<u>Major Fund</u>	
<u>Betterment Funds</u>	
400004	Sewer Betterment MPEW
	<u>\$65,772</u>

vii Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

viii Warrants Payable

The balance in this account consists of those warrants approved by the City for payment between July 1, 2008 and July 15, 2008. These warrants have been recorded as expenditures during the fiscal year ended June 30, 2008 and the corresponding credit is to the account entitled warrants payable.

II Stewardship, Compliance and Accountability

A. Budgetary Information

i General Budget Policies

Budget requests are prepared by the various City departments and submitted to the Mayor and to the Budget and Finance Committee for review during January, February and March of each year. The Mayor and the Budget and Finance Committee have until June (which is when the annual budget is typically approved) to make any changes to the departments' requests. After approval of the budget the tax recapitulation (recap) sheet is prepared. During this process the property tax rate is determined and the recap sheet is sent to the Department of Revenue for approval.

Encumbrance accounting is utilized when purchase orders, contracts or other commitments for purchases are recorded in order to reserve that portion of the applicable appropriations. Encumbrances still open at year end are reported as a reservation of fund balance. Encumbrances do not constitute expenditures or liabilities.

ii Budget Basis of Accounting

The final budget appearing in the required supplementary information section of the financial statements is taken from the City's annual recap sheet and includes those amounts which pertain to fiscal 2008 adjusted for any subsequent votes applicable to fiscal 2008.

The following reconciliation summarizes the differences between the budget basis and the Generally Accepted Accounting Principles (GAAP) basis reported in the fund financial statements for the year ended June 30, 2008.

	<u>Revenues</u>
As Reported Budget Basis	\$ 75,846,265
Adjustments:	
Sixty Day Property Tax Accrual - Net	(293,208)
On Behalf Payments Included in Intergovernmental	6,202,017
Long Term Interest Payments are Offset by Subsidies made by the Massachusetts Water Pollution Abatement Trust	1,008,945
As Reported GAAP - Fund Financial Statement	<u>\$ 82,764,019</u>

	<u>Expenditures</u>
As Reported Budget Basis	\$ 79,423,606
Adjustments:	
July 1, 2007 Encumbrances	803,368
June 30, 2008 Encumbrances	(1,164,905)
On Behalf Payments Included in Employee Benefits	6,202,017
Long Term Interest Payments are Offset by Subsidies made by the Massachusetts Water Pollution Abatement Trust	1,008,945
Principal Paydown of Bond Anticipation Note is Not an Expenditure on GAAP Basis Statement	(29,000)
As Reported GAAP - Fund Financial Statement	<u>\$ 86,244,031</u>

B. Deposits and Investments

a.) Custodial Credit Risk - Deposits

Custodial Credit Risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. As of June 30, 2008, \$18,778,037 out of the City's bank balance of \$43,433,132 was exposed to credit risk as follows:

Uninsured and Uncollateralized \$ 18,778,037

ii.) Investments

a.) As of June 30, 2008, the City had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less Than 1</u>	<u>1-5</u>
U. S. Government Obligations	\$ 312,034	\$ 150,766	\$ 161,268
Corporate Bonds	<u>210,046</u>	-	<u>210,046</u>
Total	<u>\$ 522,080</u>	<u>\$ 150,766</u>	<u>\$ 371,314</u>

B. Deposits and Investments (Continued)

b.) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

c.) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth of Massachusetts has an investment "legal list" which the City is required to follow. However, the City does not have its own formal policy regarding credit risk.

d.) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City does not have a formal policy regarding concentration risk. More than 5 percent of the City's investments are in U.S. Government Obligations 19%.

C. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Reductions/ Reclassifications	Ending Balance
Government Activities:				
Land	\$ 17,701,783	\$ -	\$ -	\$ 17,701,783
Construction in Progress	188,523	61,993	(188,523)	61,993
Total Capital Assets not Being Depreciated	17,890,306	61,993	(188,523)	17,763,776
Assets Being Depreciated:				
Buildings	55,374,837	1,163,181	-	56,538,018
Improvements	4,631,141	23,900	-	4,655,041
Infrastructure	12,684,955	600,604	-	13,285,559
Equipment	6,549,241	151,561	-	6,700,802
Vehicles	7,866,734	451,875	-	8,318,609
Other	943,274	114,741	-	1,058,015
Total Capital Assets Being Depreciated	88,050,182	2,505,862	-	90,556,044

C. Capital Assets (Continued)

Less Accumulated Depreciation for:

Buildings	(23,408,198)	(2,290,831)	-	(25,699,029)
Improvements Other Than Buildings	(1,573,868)	(208,998)	-	(1,782,866)
Infrastructure	(663,048)	(260,675)	-	(923,723)
Equipment	(5,453,460)	(253,432)	-	(5,706,892)
Vehicles	(5,744,218)	(409,524)	-	(6,153,742)
Other	(207,292)	(77,254)	-	(284,546)
Total Accumulated Depreciation	<u>(37,050,084)</u>	<u>(3,500,714)</u>	-	<u>(40,550,798)</u>

Capital Assets Being Depreciated, Net	<u>51,000,098</u>	<u>(994,852)</u>	-	<u>50,005,246</u>
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Governmental Activities Capital Assets, Net	<u>\$ 68,890,404</u>	<u>\$ (932,859)</u>	<u>\$ (188,523)</u>	<u>\$ 67,769,022</u>
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Depreciation expense was charged to functions as follows:

Government Activities:

General Government	\$ 200,591
Public Safety	280,325
Education	2,362,410
Highways and Public Works	552,795
Culture and Recreation	104,593

Total Governmental Activities Depreciation Expense	<u>\$ 3,500,714</u>
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	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions/ Reclassifications</u>	<u>Ending Balance</u>
Business-Type Activities:				
Land	\$ 4,512,584	\$ -	\$ -	\$ 4,512,584
Construction in Progress	19,464,362	-	(19,464,362)	-
Total Capital Assets not Being Depreciated	<u>23,976,946</u>	<u>-</u>	<u>(19,464,362)</u>	<u>4,512,584</u>

Assets Being Depreciated:

Buildings	4,237,807	-	-	4,237,807
Improvements	1,323,563	26,854	-	1,350,417
Infrastructure	157,129,126	25,388,722	-	182,517,848
Equipment	1,007,785	11,725	-	1,019,510
Vehicles	827,872	79,680	-	907,552
Other	15,000	-	-	15,000
Total Capital Assets Being Depreciated	<u>164,541,153</u>	<u>25,506,981</u>	<u>-</u>	<u>190,048,134</u>

Less Accumulated Depreciation for:

Buildings	(3,710,123)	(95,943)	-	(3,806,066)
Improvements	(222,556)	(66,761)	-	(289,317)
Infrastructure	(33,238,119)	(3,432,600)	-	(36,670,719)
Equipment	(748,436)	(39,540)	-	(787,976)
Vehicles	(606,026)	(42,120)	-	(648,146)
Other	(10,500)	(3,000)	-	(13,500)
Total Accumulated Depreciation	<u>(38,535,760)</u>	<u>(3,679,964)</u>	-	<u>(42,215,724)</u>

Capital Assets Being Depreciated, Net	<u>126,005,393</u>	<u>21,827,017</u>	-	<u>147,832,410</u>
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Business-Type Activities Capital Assets, Net	<u>\$ 149,982,339</u>	<u>\$ 21,827,017</u>	<u>\$ (19,464,362)</u>	<u>\$ 152,344,994</u>
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C. Capital Assets (Continued)

Depreciation expense was charged to business-type activities as follows:

Business-type Activities:	
Waterways	\$ 86,623
Sewer	2,867,093
Water	726,248
Total Business-type Activities Depreciation Expense	<u>\$ 3,679,964</u>

D. Accounts Receivable

The accounts receivable on the combined balance sheet are listed below by levy.

Governmental Activities

Current Accounts Receivable

Property Taxes Receivable:

Real Estate Taxes

2008	\$ 1,309,961	
2007	487,615	
2006	274,033	
Total Real Estate Taxes		<u>\$ 2,071,609</u>

Personal Property Taxes

2008	\$ 14,550	
2007	13,425	
2006	9,062	
2005	9,725	
2004	10,276	
2003	9,759	
2002	12,122	
2001	21,477	
2000	17,395	
1999	20,042	
1998	25,414	
1997	20,459	
1996	19,252	
1995	19,937	
1994	23,943	
1991	102	
Total Personal Property Taxes		<u>246,940</u>

Total Property Taxes Receivable

\$ 2,318,549

Tax Liens

\$ 1,259,366

D. Accounts Receivable (Continued)

Excise Taxes:

Motor Vehicle Excise Tax

2008	\$ 268,730	
2007	75,867	
2006	41,863	
2005	33,030	
2004	26,336	
2003	27,112	
2002	26,460	
2001	29,414	
2000	19,129	
1999	15,102	
1998	14,851	
1997	17,754	
1996	20,026	
1995	14,080	
1994	11,230	
1993	11,531	
1992	11,827	
1991	16,902	
1990	23,192	
1985	28,083	
Total Excise Receivable		<u>\$ 732,519</u>

Departmental:

Ambulance	\$ 948,372	
Street Betterments	48,786	
Public Property	8,576	
Due from Blue Cross	79,600	
Total Departmental		<u>\$ 1,085,334</u>

Intergovernmental:

Commonwealth of Massachusetts -

School Building Assistance \$ 1,508,612

U.S. Department of Housing and Urban

Development Grants 34,147

Commonwealth of Massachusetts -

Highway Projects 1,489,461

D. Accounts Receivable (Continued)

School Lunch	104,219
Circuit Breaker	203,429
Pl 94-142	76,060
Special Education Program Improvement	5,076
Preserve America	63,800

Total Current Intergovernmental	<u>\$ 3,484,804</u>
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Special Assessments:

Sewer Betterments	
Septic	<u>\$ 138,600</u>

Non Current Accounts Receivable:

Intergovernmental:

Commonwealth of Massachusetts - for School Building Assistance	<u>\$ 12,902,188</u>
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Deferred Property Taxes	<u>\$ 156,903</u>
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Noncurrent Deferred Special Assessments	<u>\$ 18,484,928</u>
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Business-Type Activities

Excises:

Boat Excise Taxes

2008	\$ 20,065
2007	14,170
2006	9,462
2005	7,087
2004	4,056
2003	6,353
2002	9,607
2001	10,563
2000	11,665
1999	17,789
1998	14,486

D. Accounts Receivable (Continued)

1997	14,779
1996	12,241
1995	9,821
1994	11,753
1993	13,654
1992	20,925
1991 and Prior	17,575

Total Excise Receivable	<u>\$ 226,051</u>
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Departmental:

Lobster Marina	<u>\$ 11,255</u>
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User Charges:

Sewer Meter 2008	\$ 970,305
Sewer Meter 2007	(9,756)
Sewer Meter 2006	(2,238)
Sewer Meter 2005	(3,042)
Sewer Fixtures 2008	7,505
Water Meter 2008	792,076
Water Meter 2007	(16,512)
Water Meter 2006	(1,151)
Water Meter 2005	(4,647)
Water Fixtures 2008	10,326
Water Fixtures 2007	(317)
Water Fixtures 2006	2

Total User Charges	<u>\$ 1,742,551</u>
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Utility Liens:

Sewer Liens 2008	\$ 151,871
Sewer Liens 2007	28,389
Sewer Tax Title	15,881
Water Liens 2008	181,938
Water Liens 2007	36,896
Water Tax Title	26,991

Total Utility Liens	<u>\$ 441,966</u>
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E. Debt

Short Term Debt

The short term debt activity for the year was as follows:

	Balance Beginning of Year	Issued	Redeemed	Balance End of Year
<u>Governmental Activities:</u>				
Bond Anticipation Notes	\$1,306,817	\$8,267,971	\$812,000	\$8,762,788
<u>Business Type Activities</u>				
Bond Anticipation Notes	\$20,635,000	\$35,988,083	\$20,635,000	\$35,988,083

The Town has various short term notes outstanding as of June 30, 2008 as follows:

<u>Purpose</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
<u>Governmental Activities:</u>			
<u>Bond Anticipation Notes</u>			
Financial Management System	\$50,000	4.00%	9/19/08
Upgrade Fire Alarms	99,000	4.00%	9/19/08
High School Electrical	33,000	4.00%	9/19/08
GHS Elevator	68,000	4.00%	9/19/08
Soil Analysis	33,000	4.00%	9/19/08
Board of Health - Septic Loans	849,323	1.76%	Interim Loan
CSO Surface Paving	500,000	4.00%	9/19/08
City Hall Renovations	1,305,000	4.00%	9/19/08
Fire Stations	300,000	4.00%	9/19/08
Fire Department - Installations	150,000	2.00%	9/19/08
Ambulance Purchase	250,000	2.00%	9/19/08
Fire Department - SUV	40,000	2.00%	9/19/08
Modular Classrooms	3,450,000	2.00%	9/19/08
Beach Rakes	38,000	2.00%	9/19/08
Betterment Project (Moorland Way)	<u>1,597,465</u>	2.00%	9/19/08
Total	<u>\$8,762,788</u>		

E. Debt (Continued)

Business Type Activities:

Bond Anticipation Notes

Sewer Fund:

Infiltration/Inflow	\$290,096	4.00%	9/19/08
Additional Sewer	600,204	4.00%	9/19/08
Wpc Facility	1,800,000	4.00%	9/19/08
CSO Consent WWP	4,512,675	2.00%	9/19/08
CSO Consent WWP	19,940,000	4.00%	9/19/08
CSO Consent WWP	2,012,363	1.75%	Interim Loan
Construction Vehicles	205,000	4.00%	9/19/08

Water Fund:

Water Valve Replacement	500,000	4.00%	9/19/08
Water Lines - Magnolia	194,700	4.00%	9/19/08
Water Improvement	1,975,000	4.00%	9/19/08
Water System Improvement	3,500,000	2.00%	9/19/08
Water Main	458,045	2.00%	9/19/08
Total	<u>\$35,988,083</u>		

ii Long Term Debt

General obligation bonds outstanding at June 30, 2008, bear interest at various rates.

(a) Changes in Long Term Debt - the following is a summary of bond transactions for the year ended June 30, 2008

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Balance 7/01/07	\$72,393,554	\$27,979,245	\$100,372,799
Adjustment	(721)	721	0
Less: Maturities	<u>(6,528,872)</u>	<u>(2,287,450)</u>	<u>(8,816,322)</u>
Balance 6/30/08	<u>\$65,863,961</u>	<u>\$25,692,516</u>	<u>\$91,556,477</u>

(b) Summary of Debt Service Requirements to Maturity

	Governmental <u>Activities</u>		Business-type <u>Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$6,589,604	\$2,679,100	\$2,271,976	\$968,825
2010	6,497,938	2,402,752	1,924,224	890,133
2011	6,339,439	2,133,414	1,880,411	818,038
2012	6,124,391	1,868,243	1,791,708	747,357

E. Debt (Continued)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	6,255,883	1,591,093	1,776,727	677,209
2014-2018	24,211,984	4,181,155	8,048,815	2,376,981
2019-2023	8,573,554	598,217	6,004,066	873,211
2024-2027	<u>1,390,168</u>	<u>19,599</u>	<u>1,994,589</u>	<u>97,151</u>
	<u>\$65,982,961</u>	<u>\$15,473,573</u>	<u>\$25,692,516</u>	<u>\$7,448,905</u>

Subsidies through the Massachusetts Water Pollution Abatement Trust

The Massachusetts Water Pollution Abatement Trust was created by Chapter 275 of the acts of 1989 to implement the State Revolving Fund Program (SRF) contemplated by the Title VI of the Federal Clean Water Act.

The Trust administers an SRF program which includes both a federal and state capitalized revolving fund. Loans are made from the fund to local governmental units to finance the costs of eligible water pollution abatement programs.

Local governments obtain financing through the SRF and receive subsidies but are obligated for the entire amount of the debt. The City has bonded issues through the program. Subsidies will be utilized to offset debt service costs.

	<u>Government Activities</u>	<u>Business-type Activities</u>
	<u>SRF</u>	<u>SRF</u>
2009	\$1,007,425	\$13,051
2010	963,700	12,471
2011	920,255	11,868
2012	873,373	11,241
2013	829,019	10,588
2014-2018	3,256,935	30,680
2024-2027	<u>1,174,718</u>	<u>0</u>
Total Subsidies	<u>\$9,025,425</u>	<u>\$89,899</u>

Section 108 Revolving Loan Fund

The City has established a revolving loan program funded by a loan guaranteed by the U.S. Department of Housing and Urban Development. The City has issued loans as disclosed in the financial statements. Loan repayments can be used to repay the City's bond payable. The revolving loans made by the City do not coincide with the Section 108 loan amortization schedule.

E. Debt (Continued)

(c) Bond Authorizations

Long-term debt authorizations voted by the City which have not been issued or rescinded as of June 30, 2008, are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
08/01/89	Engineering Services	\$50,000
08/01/89	Remodeling	3,200
04/07/92	Sewer Outfall Remodeling	105,000
12/08/92	Water Filtration Roof	50,000
12/12/95	Police/ Courthouse Remodeling	200
01/27/97	Sewer Planning	100,000
03/18/97	Sewer (MWPAT)	200,000
04/10/97	Septic Title V	1,328,548
09/04/97	Sewer (No. Glou Ph 5)	425
08/01/01	School Remodeling	31,000
01/23/03	Magnolia	194,700
02/23/04	Infiltration/Inflow	292,600
03/30/04	Water Valve	500,000
07/27/04	GH/KC/LE/West Sewer	600,704
11/30/04	DPW Soil Study	33,000
12/22/04	W W Treatment Plant	1,800,000
02/15/05	GHS Elevator	33,000
02/15/05	School Fire Alarms	99,000
02/15/05	School Fire Doors	68,000
08/25/05	Sewer Bonds	27,025,000
08/25/05	Paving	2,100,000
08/25/05	Water	1,975,000
09/23/05	Departmental Equipment	205,000
12/15/05	Seawall	500,000
04/15/06	Municipal Software	50,000
09/26/06	Septic Loan Program	3,579,032
11/14/06	City Hall Renovations	1,305,000
02/20/07	Fire Station Bonds	300,000
08/21/07	Water	3,500,000
08/28/07	Departmental Equipment	800,000
08/28/07	Departmental Equipment	250,000
08/28/07	Fire Truck Refurbishing	150,000
08/28/07	Departmental Equipment	150,000

E. Debt (Continued)

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
08/28/07	Departmental Equipment	40,000
01/17/08	Modular Classrooms	3,450,000
02/27/08	Water & Sewer	2,055,510
04/17/08	Departmental Equipment	38,000
Total		<u>\$52,961,919</u>

iii Refunding of Long Term Debt

On July 15, 1998, the City issued \$4,540,000 of General Obligations Refunding Bonds with an average interest rate of 4.48% to advance refund \$4,195,000 of outstanding debt with an average interest rate of 7.0%. The net proceeds (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased.

(a) Changes in Cash Flow Requirements

<u>Fiscal Year</u>	<u>Existing Debt Principal & Interest</u>	<u>Refunding Bonds Principal & Interest</u>
2009	\$182,070	\$440,772
2010	263,675	246,098
2011	247,925	220,376
2012	<u>222,525</u>	<u>0</u>
	<u>\$916,195</u>	<u>\$907,246</u>

(b) Economic Gain from Refunding Issue

The net present value benefit as a result of the refunding issue is \$344,882.

iv Refunding of Long Term Debt

On September 15, 2003 the City issued \$3,905,000 of General Obligations Refunding Bonds with an average interest rate of 3.75% to advance refund \$3,600,000 of outstanding debt with an average interest rate of 5.5%. The net proceeds (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased.

E. Debt (Continued)

(a) Changes in Cash Flow Requirements

<u>Fiscal Year</u>	<u>Existing Debt Principal & Interest</u>	<u>Refunding Bonds Principal & Interest</u>
2009	\$541,187	\$534,812
2010	493,500	484,003
2011	471,500	462,200
2012	449,500	438,888
2013	427,500	419,300
2014	<u>308,250</u>	<u>300,900</u>
	<u>\$2,691,437</u>	<u>\$2,640,103</u>

(b) Economic Gain from Refunding Issue

The net present value benefit as a result of the refunding issue is \$191,586.

v Refunding of Long Term Debt

On September 1, 2006 the City issued \$29,020,000 of General Obligations Refunding Bonds with an average interest rate of 4.62% to advance refund \$29,025,000 of outstanding debt with an average interest rate of 5.24%. The net proceeds (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased.

(a) Changes in Cash Flow Requirements

<u>Fiscal Year</u>	<u>Existing Debt Principal & Interest</u>	<u>Refunding Bonds Principal & Interest</u>
2009	\$2,399,313	\$2,318,594
2010	3,725,957	3,619,538
2011	3,694,476	3,578,100
2012	3,639,955	3,503,000
2013	4,042,674	3,919,550
2014	4,333,721	4,187,500
2015	4,259,049	4,125,100
2016	4,183,141	4,030,975

E. Debt (Continued)

<u>Fiscal Year</u>	<u>Existing Debt Principal & Interest</u>	<u>Refunding Bonds Principal & Interest</u>
2017	2,923,923	2,796,725
2018	1,560,044	1,528,725
2019	1,423,918	1,381,975
2020	808,863	794,500
2021	<u>626,775</u>	<u>622,200</u>
	<u>\$37,621,809</u>	<u>\$36,406,482</u>

(b) Economic Gain from Refunding Issue

The net present value benefit as a result of the refunding issue is \$1,209,399.

F. Interfund Transfers

The accompanying financial statements reflect transactions between the various funds. These transactions represent operating transfers and do not constitute revenues or expenditures of the funds. Operating transfers made during the year were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer (Out)</u>	<u>Total</u>
General	\$ 3,614,364	\$ (35,774)	\$ 3,578,590
Betterment	-	(2,618,949)	(2,618,949)
Non-major Governmental	29,000	(970,084)	(941,084)
Health Insurance - Internal Service	-	(60,507)	(60,507)
Sewer - Business Type	37,778	-	37,778
Water - Business Type	3,827	-	3,827
Harbor - Business Type	345	-	345
Total	<u>\$ 3,685,314</u>	<u>\$ (3,685,314)</u>	<u>\$ -</u>

IV Other Information

A. Pension Plans

(a) Plan Description

The City provides pension benefits to employees by contributing to Gloucester Contributory Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Gloucester Contributory Retirement Board. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The system is a member of the Massachusetts Contributory System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Gloucester Contributory Retirement System issues a publicly available financial report that includes financial statements and the required supplementary information. That report may be obtained by writing to the Gloucester Contributory Retirement System, 6 Elm Street, Gloucester, Massachusetts 01930.

(b) Funding Plan

Active members of the Gloucester Contributory Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The City is required to pay an actuarially determined rate. The contribution requirements of plan members is determined by M.G.L. Chapter 32. The City's contribution requirement is established and may be amended by the Gloucester Contributory Retirement System with the approval of the Public Employee Retirement Administration Commission.

The City's contributions for the years ending June 30, 2008, 2007 and 2006 were \$4,830,062, \$4,853,293 and \$4,639,133, respectively, equal to 100% of the required contribution each year.

B. On Behalf Payments

GASB Statement No. 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance" requires the City to recognize, as income, certain payments made on behalf of the City by the Commonwealth of Massachusetts. Specifically, the Commonwealth makes contributions to a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board (the "State Plan") on behalf of the City's teaching employees. The City is not legally required to contribute to the State Plan, which is fully funded by the Commonwealth.

For the fiscal year ended June 30, 2008, the Commonwealth paid \$6,202,017 to the State Plan on behalf of employees of the City. Accordingly, the accompanying fund financial statements include the required adjustments, which have increased both Intergovernmental revenues and the Education expenditures by the same amount in the fund financial statements and the education expense and program revenue in the government wide financial statements. The net effect of this adjustment does not change the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2008, or fund balances at June 30, 2008.

C. Subsequent Year Authorizations

On June 26, 2008, July 23, 2008, September 2, 2008, October 28, 2008, November 18, 2008 and December 16, 2008, the City adopted a fiscal 2009 operating and capital budget of \$91,247,686. Fiscal 2009 budgetary amounts which are not reflected in the accompanying financial statements will be financed by the following sources:

2009 Property Taxes, State Aid and Non-Property Tax Revenue	\$ 73,791,381
Enterprise Fund Revenues and Available Funds	14,010,592
Other Available Funds	3,445,713
	<u>\$ 91,247,686</u>

D. Prior Period Adjustments

Prior period adjustments were made as follows:

	Governmental Activities
Reflect Capital Assets (Net Accumulated Depreciation) Not Previously Recorded	\$ 134,608
Reclassify Permanent Fund to Fiduciary Fund	(3,130)
Total Adjustments to Entity Wide Financial Statements	<u>\$ 131,478</u>

E. Commitments and Contingent Liabilities

Various legal actions and other claims are pending against the City. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2008 cannot be ascertained, management believes that any resulting liability would not exceed \$200,000.

City of Gloucester, Massachusetts
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP)
Fiscal Year Ended June 30, 2008

	Budgeted Amounts <u>Original</u>	Final <u>Budget</u>	Actual <u>Amounts</u>	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Property Taxes	\$ 52,292,777	\$ 52,356,950	\$ 52,444,908	\$ 87,958
Tax Liens	-	-	153,218	153,218
Excises	3,360,000	3,360,000	3,279,617	(80,383)
Penalties and Interest	347,000	347,000	525,423	178,423
Licenses and Permits	1,073,725	1,057,000	1,101,855	44,855
Intergovernmental	13,052,153	12,909,304	12,975,838	66,534
Charges for Services	4,171,100	4,005,325	3,928,791	(76,534)
Fines and Forfeits	371,000	429,000	325,400	(103,600)
Earnings on Investments	358,000	442,849	435,506	(7,343)
In Lieu of Taxes	36,000	36,000	46,393	10,393
Miscellaneous	634,000	759,100	629,316	(129,784)
Total Revenues	<u>75,695,755</u>	<u>75,702,528</u>	<u>75,846,265</u>	<u>143,737</u>
<u>Expenditures</u>				
Current:				
General Government	13,280,748	13,468,017	13,389,023	78,994
Public Safety	10,801,958	11,189,175	11,124,754	64,421
Education	35,826,705	35,901,612	35,898,552	3,060
Highway and Public Works	5,289,744	5,839,782	5,658,398	181,384
Health and Human Services	607,696	707,210	701,482	5,728
Culture and Recreation	774,660	716,386	714,642	1,744
Intergovernmental	3,495,940	3,329,170	3,463,771	(134,601)
Debt Service	8,564,398	8,473,379	8,472,984	395
Total Expenditures	<u>78,641,849</u>	<u>79,624,731</u>	<u>79,423,606</u>	<u>201,125</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>(2,946,094)</u>	<u>(3,922,203)</u>	<u>(3,577,341)</u>	<u>344,862</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	3,208,148	3,614,362	3,614,464	102
Transfers Out	(262,054)	(35,774)	(35,774)	-
Other Available Funds	-	343,615	343,615	-
Total Other Financing Sources (Uses)	<u>2,946,094</u>	<u>3,922,203</u>	<u>3,922,305</u>	<u>102</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 344,964</u>	<u>\$ 344,964</u>

City of Gloucester, Massachusetts
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2008
(Continued on Page 40)

<u>Federal Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>		
National School Breakfast Program	10.553	\$ 55,240
National School Lunch Program	10.555	316,357
Total U.S. Department of Agriculture		371,597
<u>U.S. Department of Housing and Community Development</u>		
Community Development Block Grant	14.218	1,133,576
Section 108 Loans	14.218	88,289
Total U.S. Housing and Community Development		1,221,865
<u>U.S. Department of Justice</u>		
Community Policing	16.710	38,912
Organized Crime Drug Enforcement Task Force	16.UNK	5,535
Total U.S. Department of Justice		44,447
<u>U. S. Department of the Interior:</u>		
Preserve America	15.929	80,120
<u>U.S. Environmental Protection Agency</u>		
Brownfields Grant	66.811	23,154
Total U.S. Environmental Protection Agency		23,154
<u>U.S. Department of Education</u>		
Title I	84.010	646,363
SPED PL 94-142 Allocation	84.027	882,694
SPED Corrective Action	84.027	9,375
SPED Program Improvements	84.027	32,867
SPED Electronic Portfolio	84.027	120
Subtotal # 84.027		925,056

City of Gloucester, Massachusetts
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2008
(Continued from Page 39)

<u>Federal Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
Occupational Education - Vocational Skills	84.048	<u>9,889</u>
Title V	84.151	<u>8,305</u>
SPED Early Childhood	84.173	<u>24,485</u>
Safe and Drug-Free Schools	84.186	<u>16,321</u>
Enhanced Education Through Technology	84.318	<u>9,467</u>
Teacher Quality	84.367	<u>164,199</u>
Total U.S. Department of Education		<u>1,804,085</u>
<u>Federal Emergency Management Agency/Department of Homeland Security</u>		
Hazard Mitigation Grant	97.039	<u>31,300</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 3,576,568</u>

City of Gloucester, Massachusetts
Notes to Schedule of Expenditures of Federal Awards
June 30, 2008

(1) Scope of Audit

The City of Gloucester, Massachusetts (the City) is a governmental agency established by the laws of the Commonwealth of Massachusetts.

All federal grant operations of the City are included in the scope of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The single audit was performed in accordance with the provisions of OMB's Circular A-133, *Compliance Supplement*.

(2) Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards includes all of the federal grant transactions of the City.

Federal grant revenues are recognized in the City's financial statements on the accrual basis for proprietary fund grants. Grant receipts in governmental funds are recorded on the modified accrual basis whereby revenue is recognized when it becomes available and measurable.

Disbursements of federal grant funds are recorded on the accrual basis.

(3) Findings of Noncompliance

The status of the findings of noncompliance identified in connection with the 2008 single audit is presented in the Summary of Prior Year's Findings and Questioned Costs.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Honorable Mayor Carolyn Kirk
and City Council
City Hall
Dale Avenue
Gloucester, MA 01930

We have audited the basic financial statements of the City of Gloucester, Massachusetts as of and for the year ended June 30, 2008, and have issued our report thereon dated December 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Gloucester, Massachusetts's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Gloucester, Massachusetts's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Gloucester, Massachusetts's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Gloucester, Massachusetts's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Gloucester, Massachusetts's financial statements that is more than inconsequential will not be prevented or detected by the City of Gloucester, Massachusetts's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Gloucester, Massachusetts's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Items II-2008-1 to II-2008-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Gloucester, Massachusetts's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the City of Gloucester, Massachusetts in a separate letter dated December 29, 2008.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
December 19, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133

Honorable Mayor Carolyn Kirk
and City Council
City Hall
Dale Avenue
Gloucester, MA 01930

Compliance

We have audited the compliance of the City of Gloucester, Massachusetts with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City of Gloucester, Massachusetts' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Gloucester's management. Our responsibility is to express an opinion on the City of Gloucester's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Gloucester's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Gloucester's compliance with those requirements.

In our opinion, the City of Gloucester, Massachusetts, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City of Gloucester is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Gloucester's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Gloucester, Massachusetts's internal control over compliance.

A *control deficiency* in the City of Gloucester, Massachusetts's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City of Gloucester, Massachusetts's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City of Gloucester, Massachusetts's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City of Gloucester, Massachusetts's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Audit Committee, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
December 19, 2008

City of Gloucester, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued on Page 47)

I. Summary of Auditors' Results

1. The opinion on the entity wide governmental funds was adverse because infrastructure assets were not reported. The opinion on the Business-Type activities each major fund and the aggregate remaining fund information was unqualified.
2. Reportable conditions in internal control were reported for the audit period (See findings II-2008-1 through II-2008-3).
3. No instances of noncompliance which were material to the financial statements were reported for the audit period.
4. No significant deficiencies in internal control relating to major programs were reported.
5. The opinion on compliance with requirements applicable to major programs was unqualified.
6. No audit findings related to major federal award programs were reported.
7. The major programs identified were:
 1. U.S. Department of Agriculture C.F.D.A. #10.553
 2. U.S. Department of Agriculture C.F.D.A. #10.555
 3. U.S. Department of Education C.F.D.A. #84.010
 4. U.S. Department of Education C.F.D.A. #84.027
 5. U.S. Department of Education C.F.D.A. #84.173
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee did not qualify as low risk.

II. Findings – Financial Statement Audit

2008-1 Systems of Internal Control

The internal control procedures relating to cash, debt and accounts receivable improved during fiscal year 2008. However, the reconciling procedures performed still left unresolved variances between the general ledger and Treasurer/Collector's detail information for accounts receivable. There were, also, two bank accounts that were not properly reconciled to their respective bank statements. In addition, most of the reconciling procedures (to the general ledger) were performed on a consulting basis and have not yet been performed by the City's staff.

Our testing disclosed that the classification codes for some of the revenue accounts need to be corrected. Classification codes are established in the Collectors Office and tell the revenues where to post in the general ledger. There is, also, an unresolved issue regarding how the accounting system is handling overpayments. Both of these problems need to be corrected before the accounts receivable can be properly reconciled.

City of Gloucester, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued on Page 48)

2008-1 Systems of Internal Control (Continued)

Performing timely reconciling procedures for the City's major assets and liabilities is extremely important in order to safeguard the City's assets and to properly monitor the City's liabilities. Strong reconciling procedures also help ensure that the City has accurate financial data in order to make sound financial decisions.

We recommend that the City place a high priority on rebuilding its systems of internal control.

2008-2 Capital Project Funds and Enterprise Capital Project Funds Borrowings

Borrowings

The City votes to approve loan authorizations to fund projects that will benefit the taxpayer over a long period of time. The votes provide the City with the authority to borrow (short term and/or long term) to provide funding for the projects. Failure to borrow for projects in a timely manner can negatively impact the City's cash flow. Also, the City's free cash position can be adversely effected because the formula utilized (by the Department of Revenue) to calculate the City's free cash position subtracts capital project fund balance deficits resulting from project expenditures that do not have offsetting borrowings (short or long term).

As of June 30, 2008, the City had several capital project accounts (both general and enterprise related) with significant deficit balances that did not have a related short term debt instrument.

We recommend that the Treasurer and the City Auditor review the balances in the capital projects funds, particularly near year end. Debt instruments should be issued for all projects in a deficit cash flow position. In addition, Project Managers should make the Treasurer aware of cash flow requirements throughout the fiscal year.

Budgets

Capital project funds derive their budgets from the loan authorizations approved for the related project. There are two methods for entering budget amounts in the subsidiary expenditure system. One method is to enter a budget amount any time a new borrowing occurs (i.e. new money). This method allows the City to be sure that expenditures have not exceeded the related borrowings. It, also, provides a mechanism to encumber unspent proceeds from borrowing (especially in the enterprise funds). However, it does not provide a good budgeting tool for large long term projects. Another method is to enter the loan authorizations as the budgeted amount. Although this method provides a good budgeting tool, there is a possibility that expenditures made will exceed what has been borrowed. The City could review a balance sheet account prior to approving expenditures in order to avoid spending in excess of what has been borrowed. However, typically only the budgets are reviewed prior to approving bills for payment. Additionally, this method does not provide the ability to determine unexpended proceeds from borrowings unless each capital project is in its own fund.

During fiscal year 2008, the budgets in the capital project funds were not updated for new borrowings. As a result, the ability to verify available funds prior to paying bills was diminished. The inability to verify whether funds are available prior to paying bills can (and did) contribute to the deficits in the capital projects. Also, the City, could not determine the unexpended proceeds from borrowings related to the enterprise funds. It is necessary to determine and reserve the unspent proceeds in order to have the enterprise fund free cash certified.

City of Gloucester, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued from Page 47)

2008-2 Capital Project Funds and Enterprise Capital Project Funds Borrowings (Continued)

We recommend that the City review the enterprise fund capital projects for 2009. Budget amounts should be increased for new borrowings. The unspent proceeds (i.e. budget balances) should be reserved at June 30, 2009.

2008-3 Internal Controls over Financial Reporting

Recently, new standards were adopted by the American Institute of Certified Public Accountants (AICPA) that will affect what we are currently required to report to you and the manner in which we conduct our audits in the future. Although some of the changes relate to terminology (i.e. a reportable condition is now a significant deficiency), the new standards lower the threshold for what is considered a deficiency. What may not have been reported as a finding in the past could be considered a significant deficiency in the future.

The new standards place a heavy emphasis on management's responsibility over financial reporting. The standards require us to report a significant deficiency when the person within the organization "responsible for the accounting and reporting function lacks the skills and knowledge to apply generally accepted accounting principles in recording the entity's financial transactions or preparing its financial statements" (including notes to the financial statements). The City Auditor is capable of properly recording the City's transactions. However, financial statement preparation has typically been outside of the job responsibilities of most City Auditors. In most governments, (including the City of Gloucester, Massachusetts) the individual responsible for the entity's financial statements understands the financial statements and notes when they are explained. However, few small organizations have an individual who stays current with changes in generally accepted accounting principles and statements issued by the Governmental Accounting Standards Board (GASB). This has typically been considered the "auditor's job". However, since the financial statements are the responsibility of management (i.e. we can only **recommend** audit adjustments) and the opinion letter is our responsibility, it is reasonable that the AICPA believes that someone within every organization should be well versed in generally accepted accounting principles and the preparation of financial statements. The standards do allow entities to use a qualified outside party (other than the audit firm) to review the financial statements prepared by the auditor.

We recommend that the City consider additional staff training relating to preparation of the financial statements.

As is the case with all internal control decisions, management must make assessments of the cost/benefits related to implementing new systems and procedures.

III. Findings and Questioned Costs for Federal Awards

No findings or questioned costs were reported.

City of Gloucester, Massachusetts
Summary of Prior Years Findings and Questioned Costs
For the Year Ended June 30, 2008

<u>Program</u>	<u>Reference</u>	<u>Finding</u>	<u>Current Status</u>
U.S. Department of Education – SPED - Idea Allocation Grant – C.F.D.A. #84.027 and SPED – Early Childhood – C.F.D.A. #84.173	2007-6	Internal controls did not exist to insure that the required employee certifications for individuals charged 100% or part time to federal grants were on file. In absence of signed timesheets to support payroll charges to federal grant programs, the United States Office of Management and Budget (OMB) Circular A-87 specifies that certain certifications must be made.	This finding has been corrected during the fiscal year ended June 30, 2008.
U.S. Department of Agriculture – National School Lunch Program/School Breakfast Programs – C.F.D.A #10.555 and C.F.D.A. #10.553	2007-7	The City is required to perform income verification for a specified percentage of students receiving free or reduced meals. The financial documentation was not available for us to review.	This finding has been corrected during the fiscal year ended June 30, 2008.